



A potential change
of ownership of
**Channel Four
Television
Corporation**

Channel 4 response to
DCMS consultation
September 2021

Contents

Executive summary

Introduction

Consultation questions

Response to consultation questions

Question 1

Do you agree that there are challenges in the current TV broadcasting market that present barriers to a sustainable Channel 4 in public ownership?

Question 2

Would Channel 4, with a continued public service broadcasting licence and remit, be better placed to deliver sustainably against the Government's aims for public service broadcasting if it was outside public ownership?

Question 3

Should Channel 4 continue its contribution to levelling up the regions and nations of the UK through retaining a presence outside London and a strengthened regional production remit?

Question 4

Should the Government revise Channel 4's remit and obligations to ensure it remains relevant in an evolving broadcast market?

Question 5

Should the Government remove the publisher-broadcaster restriction to increase Channel 4's ability to diversify its commercial revenue streams?

2	Question 6a	41
5	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on overall audience experience?	
14	Question 6b	41
15	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on the Channel 4 Television Corporation itself?	
15	Question 6c	42
15	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on investment in the independent production sector?	
21	Question 6d	42
21	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on investment in the independent film sector?	
24	Question 6e	46
24	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on the TV advertising market?	
32	Question 6f	49
32	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on investment in the creative industries sector more widely?	
37	Question 6g	50
37	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on competition between Channel 4 and other PSB and non-PSB channels?	
	Question 6h	51
	With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on the regions and nations of the UK?	

Executive summary

We fully endorse the Government's support for the UK's PSB system, and for a successful Channel 4 – both now and in the future.

The Channel Four Television Corporation has occupied an important place in the UK's cultural landscape ever since it was established by the Thatcher Government almost 40 years ago. In that time, it has become a unique public service media company and British success story, building the UK's independent production sector, creating thousands of jobs across the country and serving generation after generation of young people.

Under our current ownership model – in public hands, and at no expense to the public – we are fully focused on delivering cultural, economic and societal value for the UK. This model has been the bedrock of our success in building a much-loved British institution.

Channel 4 is an organisation that embraces change, and we share the Government's stated objectives to enhance Channel 4's unique role in broadcasting, and to ensure the organisation thrives for another 40 years¹. From the moment Channel 4 was created to be a radical, innovative force in UK broadcasting, it has been changing and evolving – and as a national asset, it is right that we regularly consider what more we can do to deliver and increase our impact, both for British audiences and the UK economy.

As an independent statutory corporation accountable to Parliament (distinct from a non-departmental public body), Channel 4 has a responsibility to set out its view on how we deliver impact today, and our plan for further growing impact in future.

The Government's consultation is an opportunity for Channel 4 to consider how it could deliver even more for the benefit of the British people. There are three areas in which we believe Channel 4 could build the most impact. We intend to:

- Excel as the young people's PSB streamer, investing £50 million more in content for younger viewers across genres, focused on streamed and social content
- Expand as a publisher-broadcaster internationally, increasing our Global Format Fund to help indies create new formats with global potential; and launching an advertiser-funded international streaming service

- Accelerate our role as a public service catalyst across the UK, with £5 million of investment to reach 15,000 young people annually with training and development initiatives from 2022; including a new digital academy for young people from lower socio-economic backgrounds

Channel 4 is already delivering essential cultural, economic and social impact for the whole of the UK. These three ambitions will ensure that Channel 4 thrives while delivering more value to viewers, supporting more jobs and projecting British culture, values and creative excellence overseas.

As the Government considers how different ownership models might affect that impact in the decades ahead, we note that the decision on Channel 4's future ownership could have profound implications for UK viewers and a permanent effect on investment and jobs in the UK's creative sector.

In writing this response, we have carefully assessed these implications in an evidence-based manner.

Channel 4 under public ownership has delivered significant benefits to the UK

Under our unique model and remit, delivering impact for the UK is our central mission – and we do so in multiple ways. This includes delivering distinctive British public service content available to all for free, being a creative incubator for SMEs across the UK, levelling up the creative economy, investment in British Film, catering for underserved audiences, nurturing talent, equipping young people with the skills they need, and investing in our Nations and Regions. We do all of this at no cost to the British taxpayer, and our current ownership structure is a core part of our ability to prioritise and deliver these goals. In particular, we are still only in the early stages of our 4 All the UK plan to drive economic growth outside London – with new offices in Leeds, Bristol and Glasgow, *Channel 4 News* to open a Leeds hub later this Autumn and plans to expand our regional skills initiatives to provide aspiration and opportunity to young people outside London.

¹ DCMS consultation on a change of ownership of Channel 4 Television Corporation, 2021.



The Great British Bake Off

Despite the rapid changes in the broadcasting sector, the evidence demonstrates that Channel 4's model is in a strong position to face the future

We do not agree with the consultation document's assessment that Channel 4 is overly reliant on advertising revenues that are in decline, and that changes in the broadcasting sector threaten Channel 4's sustainability. The Government is right to identify the challenges in the broadcasting sector, which relate primarily to a decline in linear viewing and increasing competition for attention from streaming services. But these challenges apply to all broadcasters, regardless of ownership status. Further, the evidence demonstrates that both digital and broadcast advertising remain robust. As set out in more detail in our response to Question 1, advertising will continue to be a strong business model: all forecasts show that the digital advertising market will continue to grow, broadcast advertising remains resilient, and consumers will continue to value free to view, advertising-funded content.

Indeed, the evidence shows that Channel 4 is addressing these challenges more effectively than our competitors – we are growing our revenues despite this increase in competition and shifting quicker than others to digital. In 2021, we are projecting revenues of over £1 billion for the first time in our history with growth of +13% compared to 2019. This is in large part driven by our market leading growth in digital revenues which are forecast to be up 32% year-on-year and comprise 19% of our total revenues.

Channel 4 has also demonstrated the ability of its model to deal with market shocks as well as long-term structural change. Despite the worst global recession in living memory, Channel 4 ended 2020 with a record financial surplus of £74 million – a result of prudent cost-cutting across the business followed by strong viewing performance – due to our creative choices and agility – across linear and digital and a robust return from the advertising market. This is proof of the agility of the model and its ability to adapt to a changing environment. Channel 4 is an efficient commercial organisation, well adapted to operating in a competitive market. The organisation is globally recognised as leading the way in digital transformation and in 2020 continued on the business' longer-term trend of robust market-leading

digital growth, with digital advertising revenues having doubled since 2016. The challenges the Government identifies are not directly linked to public ownership, and therefore it is not evident that a change in ownership would address these issues.

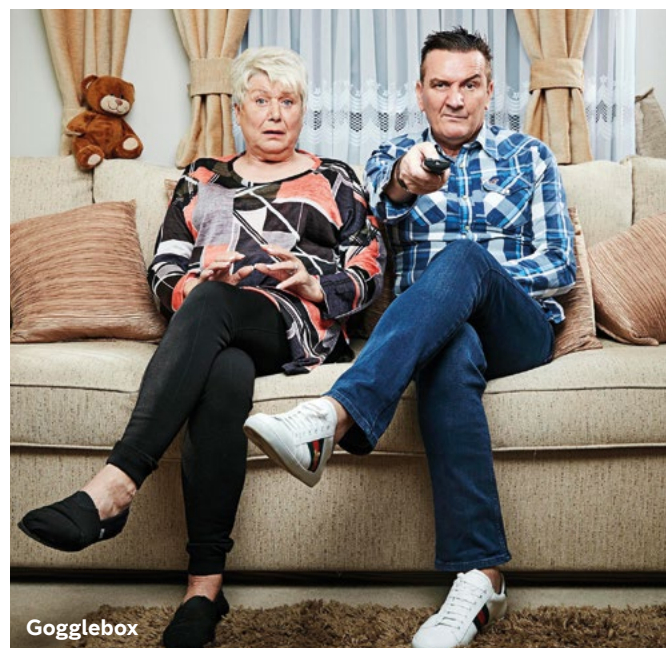
A Channel 4 remaining under public ownership can deliver even greater value for Britain – with more British content, projecting British soft power overseas and creating more British jobs

We have carefully thought through the Government's questions about how Channel 4 can thrive in the long term. We have the ambition and the opportunity to go even further in future – delivering even more for Britain and our audiences. These ambitions are focused on supporting more British jobs, serving British viewers with more British public service content, and for projecting Britain's cultural power to a global audience.

Channel 4's focus is on delivery of our remit, and maximising our public value: moving Channel 4 to a profit driven model could have negative consequences for these policy objectives

Moving Channel 4 into private ownership will have an inevitable and fundamental impact on the incentives and culture of the organisation. Under public ownership, the remit permeates Channel 4's full range of programming – far beyond the specific quotas required by its licence. Under private ownership, Channel 4's fiduciary duty would be to maximise returns to shareholders. This dynamic can be seen in other commercially funded, but privately-owned PSBs like ITV. For instance, ITV's most recent results show an EBITA margin of c.20%². A privately-owned Channel 4 would be expected to replicate similar margins, and this would be most likely achieved through a cut to our biggest outgoing cost, our content budget.

Given this, a private owner would have a natural and legitimate incentive to seek both to dilute the more commercially onerous parts of the channel's remit and to scale back those additional public benefits, whether that is covering public service themes in our mainstream programmes or our training and skills initiatives, which are not mandated by the statutory remit.



² ITV annual report (2020) https://www.itvplc.com/~/_media/Files/1/ITV-PLC/documents/reports-and-results/annual-report-2020.pdf

A change of ownership will impact on investment and jobs in the creative industries

An impact assessment will need to consider the impact on investment and jobs of any decision to move Channel 4 into private ownership, particularly in the Nations and Regions.

In independent analysis commissioned for Channel 4, EY estimates that privatising Channel 4 with its current remit and role could result in a reduction in Channel 4's contribution to GDP (measured as gross value added or GVA) through its supply chain in the creative industries of £1 billion (-15%) over a ten-year period compared to no change of ownership for Channel 4. This would represent an estimated reduction in the number of jobs supported by Channel 4 in its supply chain each year across the UK of 1,300 (-14%) compared to a scenario where Channel 4 remains in public ownership.

As such, there is a real risk that moving Channel 4 into private ownership will reverse the progress made towards rebalancing the creative sector across the UK.

A change of Channel 4 ownership will impact on viewer choice

We are concerned that moving Channel 4 into private ownership could also result in a reduced diversity and quality of content for UK viewers. While global players produce content to appeal to as broad an international audience as possible, Channel 4 is focused on commissioning content tailored to the lives and experiences of the British people. Channel 4's public ownership means we can take a risk on content that may not deliver a financial return: if we had not been able to take this approach, valuable public service content and films from *Slumdog Millionaire* to *Gogglebox* may never have been commissioned at all. Indeed, many other shows on other broadcasters may also not have existed were it not for the creative incubator role that Channel 4 plays. We note that Andy Harries, Chief Executive of Left Bank Pictures who produce *The Crown*, recently commented that Channel 4 was integral to his early career, and that *"If Channel 4 had not rescued The Deal (a 2003 film produced by Left Bank and written by Peter Morgan who went on to write The Crown), it is almost certain The Crown would not have existed... Channel 4 is the academy of British TV. It is vital for new ideas, new companies and new people. It's a unique British creation whose structure and remit is as vital today as it was nearly 40 years ago."*

There are other levers available to the Government to enhance and strengthen Channel 4

Beyond amending Channel 4's status as a publisher-broadcaster, the consultation does not outline other potential policy options that could seek to bolster Channel 4 in the long term without the risks that will be caused by a change in ownership. Alongside the Future4 strategy, which will enable a clear and sustainable future for Channel 4 as a publicly-owned entity, there are a range of levers that we believe the Government could also be considering, separate to ownership. These include areas where the Government has already committed to taking forward action – such as to modernise the legislation on public service prominence to apply across digital platforms, as well as reviewing the commercial relationships between platforms and publishers through the new Digital Markets Unit. We believe these measures could have a material impact on Channel 4's successful transition to a digital-first organisation. The Government could also consider alternative means of accessing capital, and modernisation of the licence obligations and the public service remit. We look forward to discussing these matters further with the Government.

Consideration of changes to Channel 4's ownership must be based on a clear analysis of what the Government wants Channel 4 to deliver, and then an evidence-based assessment of how these are best delivered

Any decision on the future of Channel 4's ownership should be based on data and transparent analysis of the implications of any changes and the likely impact on Channel 4's future prosperity, the delivery of its public remit, the impact on the UK's creative industries and the media content and choice available to the wider British public.

Channel 4 is sharing its own analysis with the Government for this purpose – including economic analysis from EY on the potential impact of a change in ownership on GVA and the wider creative industries, as well as viewer research. This research shows that the public is not currently supportive of a change in ownership for Channel 4 – an audience survey conducted by Tapestry in July 2021 found little support for privatisation; and, once Channel 4's model was explained to the sample, 82% of UK adults said that Channel 4 should remain in public ownership³.

Looking ahead

This is a profoundly important decision for Government and Parliament to make, with many associated risks to the wider PSB ecosystem, the creative economy, and jobs outside London. Therefore, as the Board of an independent statutory Corporation that is wholly focused on delivering the Channel 4 remit, it is our duty clearly to express what the consequences and impacts of any changes in ownership might be, based upon detailed research, analysis and market evidence.

Taking account of our market-leading progress shifting our business to digital through the Future4 strategy, and the wider global revenue and market dynamics – particularly the strength of digital advertising – the evidence suggests that continued public ownership of Channel 4 would create the right conditions not only to overcome the audience and competitive challenges the Government has rightly identified, but also to ensure that public service broadcasting in the UK continues to thrive.

Having considered all the available analysis extremely carefully, we have concluded there is no evidence that the irreversible transfer of Channel 4 from the British public into private commercial hands will be of benefit to either British audiences or the UK economy, and may indeed cause them harm.

Whilst the evidence does not conclude that a change of ownership would be beneficial, we intend to work constructively with Government to discuss our assessment of the risks and opportunities of the options under consideration, and to investigate how we could work together to further Channel 4's success, for the benefit of the whole UK.

In the last few weeks, Channel 4 has powerfully demonstrated its capability to provide unique, socially valuable and deeply resonant content. From the Tokyo Paralympics, to the historic *Black to Front* initiative and most recently bringing Emma Raducanu's US Open triumph, to the whole nation in a ground-breaking partnership; these are things that no other PSB would deliver in the way that we do, and we believe that is inextricably tied to our current ownership model.

Innovation and change are at the heart of Channel 4. The Channel 4 Board's overwhelming aspiration is to ensure a robust and sustainable future for the organisation, and to deliver even greater impact for UK viewers and the wider creative industries – a goal we wholeheartedly share with Government.

³ Tapestry, Understanding Channel 4, August 2021.

Introduction

1. We support the Government's recognition of the importance of the UK's PSB system, and of a successful Channel 4 – both now and in the future

At the outset of this submission, it is important to be clear that Channel 4 remains unique in the UK media landscape:

- Channel 4 is a free-to-air broadcaster that is owned by the public, to serve the public, funded wholly by commercial revenues at no cost to the public.
- For forty years, Channel 4 has grown, evolved, and modernised around this hybrid model.
- Channel 4's positive impact both for British viewers and the UK's creative economy is significant – our programming has enriched people's lives and transformed social attitudes, and our investment in the UK's creative industries has helped create and sustain the UK's production sector across the Nations and Regions of the UK.
- Channel 4's public ownership and not for profit model enable us to prioritise the delivery of our remit rather than the delivery of profits, while operating in a competitive market ensures we are an efficient organisation. The publisher-broadcaster model then enables us to funnel commercially sourced revenues back into the creative sector – at no cost to the taxpayer. Profit-led models play an important role in the UK's broadcasting ecosystem, but it is important to recognise the different priorities and incentives at work between different models, and the role that Channel 4's hybrid model plays in the outputs it delivers both on and off screen.

Importantly, Channel 4's role as a public asset runs through the core of everything we do, creating an incentive to maximise returns for the British people through impactful content, economic growth, and support for the creative sector. On average, Channel 4 reaches 29.8 million viewers a week and our streaming service, All 4, has 24 million registered viewers including 80% of all 16-24-year-olds and 72% of 16-34-year-olds in the UK, experiencing 26% growth in streaming views over 2020 alone and 29% YTD on 2021. All 4 is the youngest skewing PSB player, with a 37% 16-34 profile – closer to Netflix and Amazon than any other UK PSB.

Channel 4 in public ownership also underpins British cultural influence around the world. Its investment in British talent through Film4 has led to 37 Oscars and titles as diverse as *The Inbetweeners* to *The Favourite*, *Derry Girls* to *Everyone's Talking About Jamie* project British culture, identity, humour and history far beyond the borders of the UK.

Channel 4 strongly believes that public service media is more important than ever. It is an essential means of addressing many contemporary social problems, from polarisation through to disinformation. Within this, Channel 4 plays a unique role – reaching underserved audiences, covering stories not covered by others and supporting the wider creative sector. We therefore strongly agree that the Government should be considering ways to safeguard Channel 4's role for the future.

The question at the heart of the consultation is: what is the best means of achieving this objective? The consultation sets out to test the hypothesis that a new ownership model would be the best way of ensuring Channel 4's future success and sustainability as a broadcaster delivering value for the British public. Channel 4 has carefully and objectively assessed the rationale for this view – including making sure we test our own assumptions about the benefits of public ownership.

This includes asking:

- Whether selling Channel 4 would enable it to better navigate the challenges of a changing broadcasting market than public ownership
- Whether selling Channel 4 would enable it to maintain or potentially increase its ability to deliver public service impact for UK audiences and the creative economy
- Whether removing Channel 4's 'publisher-broadcaster' status would allow Channel 4 to generate new revenue streams *without* having a negative impact on the television production sector

In this response, Channel 4 has sought to inform the Government's consultation by providing answers to these questions in an open, evidence-based way. It draws on economic analysis, commercial/market analysis, viewer research and case studies to assess what the implications of private ownership might be – for Channel 4, for viewers, for the wider creative sector, and for the UK as a whole.

The remainder of this introduction sets out:

- How Channel 4's current model has enabled it to deliver an enormous public impact
- How Channel 4 is responding well to the challenges facing the industry
- How Channel 4 under public ownership can deliver even greater value for Britain
- How this impact could be jeopardised by moving Channel 4 into private ownership
- The importance of making decisions based on clear objectives and evidence

2. Channel 4 under public ownership has delivered significant benefits to the UK

There are three fundamental pillars underpinning the way Channel 4 operates:

- **Its statutory public service remit** for innovation, diversity and risk-taking.
- **Its prioritisation of public service** whereby public outcomes are prioritised over commercial ones.
- **Its publisher-broadcaster** status, whereby all programming investment is with independent suppliers across the UK.

These three elements of Channel 4's model work to support each other – changing one element could have the unintended consequence of undermining others.

We also believe these three elements are less attractive to a commercial owner than to a public one – and thus could be under threat after a change in the model.

Under our current ownership model and remit we deliver impact for the UK in a number of different ways, and we do so at no cost to the British taxpayer.

- **Distinctive British public service content:** Despite abundance of choice and growth in video content, Channel 4 offers something unique compared to the global streamers – innovative and contemporary British produced TV and film content reflecting lives and experiences of British viewers. We make distinctive shows and take risks that no other British broadcaster will. Shows that tell our shared national story, such as *Gogglebox* and *Grayson's Art Club*, and films like *The Father* and *Everyone's Talking About Jamie*. Elsewhere, prime time popular factual shows like *The School That Tried to End Racism*, *The Write Offs* or *The Restaurant that Makes Mistakes* explore major societal issues. We entertain our viewers, but we do so while representing unheard voices and opinions from across the UK and addressing issues that matter to them. Channel 4 shows also have a measurable impact on people's lives: the *Paralympics Games* has changed attitudes towards disability and *It's A Sin* led to a rise in HIV testing.



I feel like **Channel 4 is genuinely interested in hearing about places and characters that we don't see on TV that often, which have been ignored.** There has never been a comedy about Northern Ireland like *Derry Girls* – Northern Irish people have never really seen themselves reflected in this way before."

Lisa McGee, Creator, *Derry Girls*



- **Serving young people:** We are the youngest-skewing PSB in the UK⁴ and invest in content for young people, delivered on the platforms where they are spending more of their time. We are successfully reaching this audience on digital and social platforms – All 4 is the youngest-skewing PSB player, with a 37% 16-34-year-old profile – closer to Netflix and Amazon than any other UK PSB. 22 out of 25 of the youngest-profiling shows of any UK PSB were on Channel 4. 90% of 18-34s reached by Channel 4's portfolio of channels on social, ahead of LADbible, Disney and the BBC. Because of their trust in our brand our news and current affairs has particular resonance and reach with young people and helps tackle the spread of misinformation online. *Channel 4 News* is the biggest news programme on social media in the UK – in 2020, more than half a billion views were recorded to *Channel 4 News* content on Twitter, Facebook and YouTube, as viewers sought a different style of news and expert commentary. *Channel 4 News* includes more investigative journalism and more international content than any other peak-time news programme. This requires significant investment, often loss-making, which a more commercially motivated owner may decide not to make.
- **Supporting SMEs across the UK:** Channel 4 is unique as a publisher-broadcaster – we make none of our own programmes and instead invest our revenues into our supply chain. Ofcom recently described this as “*the most significant*” policy intervention in developing the UK's independent production sector.⁵ The publisher-broadcaster model means we invest in small and medium businesses with British entrepreneurs and new talent across the UK, supporting growth not just in the television production sector, but in consumer digital businesses and advertisers too. Economic research commissioned from EY found that Channel 4 supports nearly £1 billion in GVA a year and 10,000 jobs⁶.
- **Levelling up the creative economy:** Channel 4 already invests more in independent production companies outside London than any other broadcaster, including the BBC⁷. Our pivotal role in helping the creative economy outside of London will be magnified by our increased content spend – now 50% of our total spend – with producers in the Nations and Regions, our new HQ in Leeds and Creative Hubs in Glasgow, Bristol and Manchester, and our investment in skills and training bringing disadvantaged young people into the digital workforce and transforming their prospects as we have done recently with our 4Studio apprenticeship scheme. This is underpinned by our commitment to the Nations and Regions. We have further leveraged the development of the UK's creative economy beyond our commissioning activity, for example by acting as an incubator of talent and entrepreneurial producers, via the Indie Growth Fund.

⁴ BARB data.

⁵ https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0023/221954/statement-future-of-public-service-media.pdf

⁶ EY, Channel 4's contribution to the UK, 2021 https://assets-corporate.channel4.com/_flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf

⁷ O&O, Made-outside-London PSB production data, 2021.

- Projecting Britain's cultural power globally:** Channel 4's support for British independent filmmakers has resulted in significant success for Film4, exporting British talent and creativity all over the world. As the consultation notes this has led to significant international acclaim including 37 Oscars for Film4 backed productions and careers started from Dev Patel to Steve McQueen. Film4 has an annual budget of £25 million making it one of the biggest investors in UK independent film. In just over five years since adopting its current business strategy, Film4's investment of just over £100 million has generated around £450 million of total investment in UK films and filmmakers. The other two pillars of investment in UK Film are BBC Film (£11 million) and the BFI (£26 million) who are reliant on public and lottery funding. Beyond film, Channel 4 also has a strong track record of building programme brands and formats with global scale. Channel 4 commissioned seven of the top 25 best-selling UK unscripted formats around the world in 2019.



Channel 4 continues to set the benchmark for how all other broadcasters around the world cover the Paralympics, not just in terms of Games-time coverage and the diversity of on-screen talent, but with regards to engagement and promotion. It is testament to Channel 4's outstanding commitment to Paralympic broadcasting and promotion that Paralympians are household names in the UK and British TV features more on-screen talent with disabilities than any other country."

Andrew Parsons, International Paralympic Committee President



3. Despite the rapidly changing broadcasting sector, evidence demonstrates that Channel 4's model is in a strong position to face the future

We agree with the Government that there are significant changes occurring in the broadcasting market – from increased competition from global streamers to declining linear revenues. Indeed, the Future4 strategy we laid out in 2020 is directly aimed at addressing these market shifts. The challenges in the broadcasting sector are well-known: they relate primarily to a decline in linear viewing and increasing competition from streaming services. These issues apply to all broadcasters, regardless of ownership status. Indeed, the evidence shows that Channel 4 is addressing these challenges more effectively than our competitors. They are therefore not directly linked to public ownership; and therefore it is not clear that moving Channel 4 into private ownership would address these challenges.

Channel 4's model has proven to be successful, resilient and sustainable. Despite the worst global recession in living memory, Channel 4 ended 2020 with a record financial surplus of £74 million. This was a result of swift managerial decision-making and demonstrates the agility and adaptability of the model.

Channel 4 is globally recognised as leading the way in digital transformation and is successfully exploiting rapid growth in digital advertising revenue. Through our Future4 strategy, Channel 4 is rapidly transforming into a digital PSB, with digital advertising revenues having doubled since 2016. Digital now makes up 17% of total revenues, compared to 9% for peers. Key to Channel 4's success has been its ability to maintain its resonance with young viewers – who are at the forefront of changing viewer habits – and maintain and grow advertising revenues despite these changes. Channel 4's is the youngest profiling PSB in the UK⁸, with double the young audience share of BBC. 80% of UK 16-24-year-olds are signed up to All 4, which delivered a record 1.25 billion streams in 2020 and is on course for 1.5 billion views in 2021, ahead of target.

As a result, Channel 4 is thriving and is well set for future growth. 2021 revenues are set to grow by 19% against 2020, but – even more impressively – our revenues are likely be +13% compared to 2019. Within this, digital revenues are forecast to be up 32% year-on-year and comprise 19% of our total revenues, while non-advertising revenues are set to make up 9% – both metrics very much on-target for 2025. Indeed, September 2021 will show our largest ever monthly revenues at £120 million, up +26% year-on-year.

We are forecasting over £1 billion of revenues for the first time ever and net assets of over £0.5 billion by this year-end – which represents significant capital available for us to invest in our future. The fact that we are on track in 2021 to deliver our highest ever revenues, despite the increase in competition, demonstrates that from far from a company in decline, Channel 4 is a growth business.

The current strategy of digital transformation goes with the grain of Channel 4's track record in evolving its business to meet changing consumer habits – we were the first broadcaster in the country to launch a video on demand service, the first to launch a comprehensive data strategy, and the only one to have agreed partnerships with social platforms such as Snap and TikTok. Indeed, Channel 4's size and agility is what makes it a compelling partner for other media companies. Recent deals include with Sky, Snapchat, TikTok and Netflix, and most recently partnering with Amazon Prime to bring the US Open final with Emma Raducanu to 9.2 million viewers free-to-air. Channel 4 can deliver scale through partnerships – and in fact, selling Channel 4 to a global media brand may make it harder, not easier, to partner with other organisations as they turn into direct competitors. Channel 4's model has proven that it does not just survive but thrives in response to a significant market change due to its agility and innovation focus.

⁸ BARB data.



Channel 4 is in a demonstrably strong position and has shown its ability to adapt to a fast-paced media market. While we fully acknowledge the challenges identified in the consultation, we do not share the Government's view that these are directly linked to the question of public or private ownership; in fact, we think our current ownership model makes us well-placed to adapt to them.

4. Channel 4 under public ownership can deliver even greater value for Britain – with more British content, projecting British soft power overseas and creating more British jobs

We have carefully considered the Government's questions about what more Channel 4 can do to ensure we thrive in the long term. We have the ambition and the opportunity to go even further in future – delivering even more to our audiences and the country more broadly. We believe there are three areas we can focus on to build our impact – together, these represent a strategy for supporting more British jobs, for serving British viewers with more content, and for projecting British soft power overseas:

- **Excel as the young people's PSB streamer.** Channel 4 is the young peoples' PSB streamer. And we will invest more behind this proposition, leveraging our progress in technology and our platforms further in order to bind successive generations of young British viewers to strong, valuable and trustworthy public service media. This includes:
 - £50 million to be invested in content for younger viewers across genres;
 - a new All 4 first strand of *Dispatches* in 2022 covering issues specific to young people;
 - £5 million to be invested in All 4 first documentaries that reflect the lives of young people;
 - a tripling of investment in our new Teens content strand investment to triple; and
 - all scripted content to be primarily commissioned for All 4 before linear broadcast.

- **Become an international publisher-broadcaster.** We will seek more ways to support and incentivise global growth for shows and formats generated by UK indies, while extending Channel 4's reach, growing our revenue streams and projecting British culture and values abroad. To achieve this, in 2022 we will be boosting the size of our Global Format Fund, which we launched last year to create new formats with global potential, from £8 million this year to £20 million next year. We also believe there is an opportunity to launch an advertiser-funded streaming service internationally, building on our success and containing select Channel 4 content. While extending our global impact, we would seek to do this within the framework of respecting producers' secondary rights, finding mutually beneficial routes to showcase British content internationally.
- **Act as a public service catalyst across the UK.** Accelerating our impact, supporting jobs and growing skills and opportunities in all corners of the UK. From 2022, we will supercharge 4Skills so that its training and development initiatives help over 15,000 young people from disadvantaged backgrounds every year – an investment worth £5 million annually. This will include a new Digital Academy, with paid three-month training and work placements for young people from lower socioeconomic backgrounds, a new pan-UK schools engagement programme and a new on and off screen training programme for people with disabilities in advance of Paris 2024 Paralympic Games.

5. Channel 4's focus is on delivery of our remit, and maximising our public impact: moving Channel 4 to a profit driven model would be likely to have negative consequences

Crucially, moving Channel 4 into private ownership will inevitably and fundamentally alter the incentives and culture of the organisation and this will have inevitable knock-on effects on how Channel 4 delivers its remit. We expand on this point in our answer to Question 4.

Under private ownership, Channel 4's fiduciary duty⁹ and main priority would (quite properly) be to maximise returns to shareholders. Under public ownership, instead of maximising profits, Channel 4 can focus on maximising public impact and remit delivery by reinvesting any available surplus.

Under private ownership, the new owners of Channel 4 could take a minimalist approach to interpreting our remit and attempt to deliver it at the lowest cost possible. This could lead to cost cutting across key areas that are currently not revenue generating – for example a reduction in public service genres, in risky areas such as Film4, and in initiatives such as 4Skills and our regional investment plans.

To provide objective and evidence-based analysis of these issues, we commissioned EY to conduct an analysis of the implications of a change of ownership. We submit EY's report in full alongside this submission for the Government to review.

EY concluded that *"a private owner of Channel 4 would need to balance fulfilling its public service remit with its duty and incentive to generate value for private shareholders. As such, the new private owner of Channel 4 could seek to focus investment on activities that are expected to deliver stronger commercial performance. Under this approach, the new owner of Channel 4 could seek to deliver against its minimum commitments, and could choose not to undertake any additional voluntary actions in excess of fulfilling its remit."*

⁹ Section 172 of the Companies Act requires business to operate in the interests of "members" (owners/shareholders) <https://www.legislation.gov.uk/ukpga/2006/46/section/172>

EY's analysis concluded that this approach could result in:

- Reduction in content spend
- Reduction in regional spend on content
- Cuts in investment in training and development programmes
- Fewer roles based in the Nations and Regions
- Acquisitions representing a higher proportion of total content spend
- Reduction in feature film investment
- Content that is "more likely to focus on a mainstream interpretation of UK culture"
- Content that "appeals to a more global audience... potentially undermining the role that public service broadcasters play in representing the UK to the rest of the world"

As a market comparison, privately-owned ITV and Channel 5 have consistently reduced their public service obligations over time, including (for ITV) significant reductions in regional news, current affairs, and content spend outside of London. By contrast, Channel 4 has increased provision over time – consistently delivering beyond its minimum regulatory requirements to deliver transformative public impact and has voluntarily increased the percentage of its spend on content produced in the Nations and Regions to 50%, far beyond the regulatory requirement of 35%.

The Government has suggested that one approach to ensuring Channel 4's remit delivery under a private owner would be to strengthen its licence conditions. However, we are concerned that a focus only on licence obligations underestimates the extent to which under Channel 4's current model the remit permeates its full range of programming – far beyond the specific quotas required of us. In entertainment, shows like *Joe Lycett's Got Your Back*, marry hard-hitting consumer journalism with humour. In comedy, we tackle subjects as tough as mental illness or immigration with titles like *This Way Up* or *Feel Good or Home*. New drama *Help*, broadcasting later in September, will highlight the tragedy that played out in our care homes in the early months of the pandemic. Elsewhere, prime time popular factual shows like *The School That Tried to End Racism*, *The Write Offs* or *The Restaurant that Makes Mistakes* explore major societal issues as diverse as unconscious bias, adult illiteracy and dementia. Beyond specific programmes, Channel 4 has also invested in ambitious industry initiatives to promote diversity and inclusion – most notably *Black To Front*, in which we broadcast 24 hours of television showcasing Black talent on and off screen. *Black To Front* included black cast and crew in some of Channel 4's biggest shows – from *Hollyoaks* to *Countdown*, and set out to leave a lasting legacy in terms of increased Black representation both on- and off-screen.

All of these titles and initiatives deliver strongly to Channel 4's broader public service remit – and yet none of them contributes to the specific quotas of programming that Channel 4 is required to produce. Given this, a private owner would have a natural and legitimate incentive to seek to both dilute the more commercially onerous parts of the channel's remit and to scale back those additional public benefits which are not mandated by the statutory remit.



6. A change in ownership will have an impact on investment and jobs in the creative industries

An impact assessment would need to consider the impact on investment and jobs in the UK's creative economy, particularly in the Nations and Regions.

In the analysis commissioned for Channel 4, EY estimates that privatising Channel 4 with its current remit and role could result in a reduction in Channel 4's contribution to GDP (measured as gross value added or GVA) through its supply chain of £1 billion (-15%) over a ten-year period compared to no change of ownership for Channel 4. This would represent an estimated reduction in the number of jobs supported by Channel 4 in its supply chain each year across the UK by 1,300 (-14%) compared to a scenario where Channel 4 remains in public ownership.

If the new private owner of Channel 4 reduces spend in the Nations and Regions to the level of Channel 4's quota (35%), EY estimate that Channel 4's contribution to GVA through its supply chain in the Nations and Regions could reduce by 43% (£1.2 billion) over a ten-year period. Similarly, EY estimate that jobs supported by Channel 4 in the Nations and Regions each year (both directly and in its supply chain) could reduce by 60% (2,300 fewer jobs supported each year) compared to a scenario where Channel 4 is not privatised.

Further, if Government removes Channel 4's publisher-broadcaster status, a new owner may be incentivised to invest in in-house production, rather than the external sector. EY estimate that if the publisher-broadcaster restriction was removed, and the new owner of Channel 4 commissioned 66% of its content from Channel 4's new in-house production unit, in line with ITV Studios' share of original content on ITV's main channel between 2016 and 2020, the present value of Channel 4's supply chain contribution to GVA over a ten-year period could be 29% (£2.1 billion) lower compared to Channel 4's current model (£5.1 billion vs. £7.2 billion). As such, the increase in Channel 4's direct GVA represents, in large part, a transfer of value from companies in Channel 4's supply chain to Channel 4's new owner and its shareholders.

PARALYMPICS

Channel 4 secured the rights to the 2012 Paralympics – the first time it had been on a commercial broadcaster. No other commercial broadcaster even bid for the London 2012 rights, despite it being a home Games.

Channel 4 did not just air the Paralympics, we set out to challenge attitudes towards disability among UK audiences. Following London 2012, 83% of viewers agreed that Channel 4's coverage of the Paralympics improved society's attitude towards people with an impairment, while 64% of viewers felt more positive towards people with a disability as a result. Since 2012 our coverage is used worldwide as an example for other countries – most recently the President of the Paris 2024 Committee noting that it was looking to Channel 4 as the international benchmark for Paralympic coverage.

Channel 4's coverage of the Tokyo 2020 Paralympic Games was viewed by over 20 million viewers – a third of the UK population (33%) and a fifth of young people aged 16-34 (22%). This year's coverage was its most ambitious to date, airing over 300 hours of around-the-clock coverage on Channel 4 and More4, as well as over 1,000 hours via 16 live streams on All 4 – capturing every event that was covered live. On-screen over 70% of the broadcaster's presenting line-up were disabled making Tokyo 2020 coverage its most diverse ever.

A privately-owned Channel 4 is highly unlikely to put the same level of investment or commitment into not just the Paralympic Games, but the programming around the Games like *Jonnie's Blade Camp* or *The Last Leg*, which stems directly from it. Our strong public mission, based on a maximalist interpretation of our remit, enabled by our public ownership, allows us to take the risks and make the investments that enable us to tell and develop our national story in a transformative way.



Channel 4's investment in the Paralympic Games is a spectacular success story. As the UK Government considers the future of public service broadcasting, I would urge it to ensure that any changes to Channel 4's model do not harm its ability to support the Paralympic Movement into the future."

Andrew Parsons, President, International Paralympics Committee



EY's analysis also demonstrates that a move into private ownership could particularly affect regional economies, with benefits accruing to London as investment shifts from the Nations and Regions to the capital. Privatising Channel 4 with its current remit and role could result in a reduction in GVA generated by Channel 4 in its supply chain in the Nations and Regions of £1.2 billion (-43%) over a ten year period and a reduction in jobs supported by Channel 4 in its supply chain each year in the Nations and Regions of 2,300 (-61%), compared to no change of ownership for Channel 4.

This would be amplified by privatising Channel 4 and removing its publisher-broadcaster status – with EY concluding that *“given Channel 4’s current level of spend with external producers outside London, privatising Channel 4 and removing the publisher-broadcaster model could have a disproportionate impact on the wider creative economy in the Nations and Regions. Our analysis suggests that the present value of GVA generated by Channel 4 in the Nations and Regions in its supply chain over a ten-year period could be 37% lower if Channel 4 is privatised and the publisher-broadcaster model is removed, compared to Channel 4’s current model (£1.8 billion vs. £2.8 billion), due to a shift in commissioning spend towards in-house productions.”*

A private owner is likely to cut costs by reducing investment in original content – market benchmarks demonstrate that Channel 4 invests a higher proportion of its revenue in content than other commercial PSB players. Further, if the Government removes Channel 4’s publisher-broadcaster status, a new owner would be incentivised to invest in in-house production, rather than the external sector; and regional independent companies would be the most adversely affected. Based on EY’s analysis and market comparisons, our assessment is there is a real risk that moving Channel 4 into private ownership will reverse the recent progress made towards rebalancing the creative sector across the UK.

Figure 1: Summary of our analysis of the present value of GVA generated by Channel 4 over a ten-year period

£m



Channel 4 continues as a publicly-owned not-for-profit publisher broadcaster and continues to exceed its current public service obligations



Channel 4 is privatised as a publisher-broadcaster with its current public service obligations



Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations



Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster mode is removed

Source: Tapestry, 2020, unique value of Channel 4.

Figure 2: Summary of our analysis of the average number of jobs supported by Channel 4 each year

Number of jobs supported by Channel 4 each year on average



Channel 4 continues as a publicly-owned not-for-profit publisher broadcaster and continues to exceed its current public service obligations



Channel 4 is privatised as a publisher-broadcaster with its current public service obligations



Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations



Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster mode is removed

- Directly in London
- Directly in the Nations and Regions
- Supply chain – London
- Supply chain – Nations and Regions

Source: Enders Analysis, 2021, Outsourcing Culture.

7. A change in ownership will have a negative impact on viewer choice

We are concerned that moving Channel 4 into private ownership could also result in a reduced diversity and quality of content for UK viewers. Despite the multiplicity of channels and streaming options available, viewers come to Channel 4 because we do things in a fundamentally different way to global streamers, US based multinationals, and indeed our fellow UK PSBs. There are also 11.5 million households who still only have access to free-to-air television – and therefore changes to Channel 4, one of the main free-to-air broadcasters, is likely to impact on the choice available to these viewers.

While global players produce content to appeal to as broad an international audience as possible, Channel 4 is focused on commissioning content tailored to the lives and experiences of the British people rather than on content which is guaranteed to deliver a financial return. This content is highly valued by audiences – research commissioned by Channel 4 in 2020¹⁰ found that viewers valued public service broadcasting for bringing the nation together, covering issues that are important to the country and for reflecting the diverse nature of Britain.

We note research from Enders Analysis that found that the UK output commissioned by the SVODs is predominantly less ‘British’ than that commissioned directly by the PSBs¹¹.

Despite the volume of content now available across streaming services, it is important to recognise the disparity in provision of first run original UK content between these services and the UK’s PSBs. The five main public service broadcaster channels (BBC One, BBC Two, ITV/STV, Channel 4 and Channel 5), S4C and the BBC’s other public service channels show around 32,000 hours of first-run original UK content per year while, in 2018, streaming services such as Netflix and Amazon Prime provided 182 hours of UK-produced content (equivalent to 0.6% of the contribution of the public service broadcasters).¹²

8. There are other levers available to the Government to strengthen Channel 4 without changing its ownership

The Government sets out in its consultation document that in order to overcome the perceived market challenges outlined above and strengthen Channel 4’s role in the long term its preferred option is a change of ownership model. However, it does not outline other potential policy options that could seek to bolster Channel 4 in the long term, but which could avoid the significant risks of a change in ownership as outlined above.

Alongside the Future4 strategy we have set out that we will ensure there is a clear and sustainable future for Channel 4 as a publicly owned entity, there are a range of levers that the Government could also be considering, separate to ownership. These include areas where the Government has already committed to taking forward action – such as to modernise the legislation on public service prominence to apply across digital platforms, as well as reviewing the commercial relationships between platforms and publishers through the new Digital Markets Unit. We believe these measures could have a material impact on Channel 4’s successful transition to a digital-first organisation. The Government could also consider alternative means of accessing capital and modernisation of Channel 4’s licence obligations and public service remit (without in any way undermining Channel 4’s public contribution). We look forward to discussing these further with Government.



Damilola: The Boy Next Door

9. Consideration of changes to Channel 4’s ownership must be based on clear evidence

Any decision on the future of Channel 4’s ownership should be based on data and transparent analysis of the implications of any changes and the likely impact on Channel 4’s future prosperity, the delivery of its public remit, the impact on the UK’s creative industries and the media content and choice available to the wider British public.

The consultation document does not include an impact assessment. We would stress to Government our view of the importance of publishing a full, transparent impact assessment ahead of any decision so that the public and all stakeholders are able to fully understand and consider the impact of changing Channel 4’s ownership structure. Publishing an impact assessment only after a decision has been made, and without giving interested stakeholders the opportunity to review and comment on it, is unusual for a Government consultation proposing significant policy changes. Other currently open Government consultations have been published alongside impact assessments, for instance the consultation on the digital markets regime, the consultation on reforming competition and consumer policy (which was published alongside three impact assessments), the consultation on the future of the exhaustion of IP rights, the consultation on competition in onshore electricity networks, and the consultation on creating a future system operator (for electricity and gas). To ensure a robust and transparent process of consultation, stakeholders should be provided with a robust impact assessment on this topic.

¹⁰ Tapestry, 2020, Unique value of Channel 4.

¹¹ Enders Analysis, 2021, Outsourcing Culture <https://www.endersanalysis.com/reports/outsourcing-culture-when-british-shows-arent-british>

¹² Ofcom, (December 2020). Small Screen: Big Debate Consultation: The Future of Public Service Media. https://www.smallscreenbigdebate.co.uk/__data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

The UK now faces a choice as to what contribution it wants Channel 4 to deliver for the country for the next 40 years. To inform this choice, we believe that the Government should understand the risks of moving Channel 4 into private ownership, as well as the gains. Any decision to privatise Channel 4 must also be viewed in the context of the wider UK PSB ecosystem. Channel 4 notes that previous reviews, including the Lords Communication Committee in 2016¹³ and the Government's own review in 2017, concluded that Channel 4's remit is better served in public ownership, and comprehensive reviews on the future of public service broadcasting from both Ofcom and the DCMS Select Committee in 2021 contained no reference to the ownership of Channel 4 in either the final recommendations or in any evidence submitted by stakeholders in the course of either consultation.

Given Channel 4's status as a public asset and its role a public-facing broadcaster, the views of the public are an important consideration as part of this consultation. This proposal was not in the Government's manifesto at the last General Election, and a nationally representative audience survey of 2000 people conducted by Tapestry in July 2021 found little support for privatisation. Once Channel 4's model was explained to the sample, 82% of UK adults aged 18–75 said that Channel 4 should remain publicly owned¹⁴. Broken down in further detail, this included 75% of Conservative voters and 75% of people in Scotland. This research indicates there is little public appetite for reform of Channel 4's model.

Looking ahead

This is a profoundly important decision for Government and Parliament to make, with many associated risks to the wider PSB ecosystem, the creative economy, and jobs outside London. Therefore, as the Board of an independent statutory Corporation that is wholly focused on delivering the Channel 4 remit, it is our duty clearly to express what the consequences and impacts of any changes in ownership might be, based upon detailed research, analysis and market evidence.

Taking account of our market-leading progress shifting our business to digital through the Future4 strategy, and the wider global revenue and market dynamics – particularly the strength of digital advertising – the evidence suggests that continued public ownership of Channel 4 would create the right conditions not only to overcome the audience and competitive challenges the Government has rightly identified, but also to ensure that public service broadcasting in the UK continues to thrive.

Having considered all the available analysis extremely carefully, we have concluded there is no evidence that the irreversible transfer of Channel 4 from the British public into private commercial hands will be of benefit to either British audiences or the UK economy, and may indeed cause them harm.

Whilst the evidence does not conclude that a change of ownership would be beneficial, we intend to work constructively with Government to discuss our assessment of the risks and opportunities of the options under consideration, and to investigate how we could work together to further Channel 4's success, for the benefit of the whole UK.

In the last few weeks, Channel 4 has powerfully demonstrated its capability to provide unique, socially valuable and deeply resonant content. From the Tokyo Paralympics, to the historic *Black to Front* initiative and most recently bringing Emma Raducanu's US Open triumph, to the whole nation in a ground-breaking partnership; these are things that no other PSB would deliver in the way that we do, and we believe that is inextricably tied to our current ownership model.

Innovation and change are at the heart of Channel 4. The Channel 4 Board's overwhelming aspiration is to ensure a robust and sustainable future for the organisation, and to deliver even greater impact for UK viewers and the wider creative industries – a goal we wholeheartedly share with Government.

¹³ <https://committees.parliament.uk/committee/170/communications-and-digital-committee/news/93896/a-privatised-future-for-channel-4-report-debate/>

¹⁴ Tapestry, Understanding Channel 4, August 2021.

Consultation questions

Question 1

Do you agree that there are challenges in the current TV broadcasting market that present barriers to a sustainable Channel 4 in public ownership? Please provide supporting evidence.

We agree there are challenges in the current broadcasting market, however these affect all broadcasters and do not present barriers to a publicly owned Channel 4. Indeed, Channel 4 is responding better to these challenges than its main competitors: our Future4 strategy has been designed specifically to address these challenges, and this strategy is delivering success. It is possible that a change of ownership would act as a drag anchor on Channel 4's digital transition – slowing down our rate of change and creating risks to our ongoing success and economic contribution.

Channel 4's view is that there are indeed challenges in the current TV broadcasting market. However, our strategy and business model enable us to address these challenges head-on; and so we consider that these challenges do not present particular barriers to a sustainable Channel 4 under public ownership. Indeed, our view is that in many ways our current model helps us to respond to these challenges.

We explain this position as follows:

- The key challenges in the broadcasting market are well-known and have existed for a significant period of time: they relate primarily to a decline in linear viewing and increasing competition from streaming services. To date, Channel 4 has coped well with these challenges, increasing its overall revenues – driven by standout digital growth.
- Our Future4 strategy has been designed specifically to address these challenges, and this strategy is delivering success in accelerating our pivot to digital, and in enabling us to hold our own in an increasingly competitive marketplace
- The market challenges apply to all commercially-funded broadcasters, regardless of ownership status. Indeed, the evidence shows that Channel 4 is addressing these challenges more effectively than our competitors
- The challenges are therefore not directly linked to public ownership. Rather, it is possible that a change of ownership would act as a drag anchor on Channel 4's digital transition – slowing down our rate of change and creating risks to our ongoing success and economic contribution

The viewing and competitive environment is changing rapidly, creating market challenges

We agree with the Government's assessment that the broadcasting market is changing rapidly, and that these changes are creating challenges for traditional broadcasters. At their heart, these connected challenges relate to **viewing** and **competition**:

- **Viewing:** It is a well-established fact that viewing behaviour is changing, with linear viewing declining from 60% of total viewing in 2016 to 53% in 2019. This decline in linear viewing is particularly pronounced amongst younger audiences. As such, Channel 4, which skews younger than other PSBs, has a particularly pressing need to address this challenge through growing our digital viewing across all platforms.
- **Competition:** Closely connected to the above, competition is intensifying – driven by technological change, and new market entry. In particular, the rise of the global streaming giants has created fundamental questions – not only for broadcasters, but also for policymakers – about how to maintain and strengthen the delivery of public service media in the UK. These questions relate both to audiences – with more competition for viewers than ever before – and content – with global players increasingly outspending traditional broadcasters.

Our Future4 strategy is addressing these challenges head-on

Channel 4 is already addressing these challenges head-on. Indeed, the consultation document itself acknowledges Channel 4's success in this regard¹⁵: *"Channel 4 itself has done an excellent job in delivering its remit and more recently in managing the uncertainty in the market over the last few years. It has advanced its digital strategy, whilst supporting the independent production sector in the UK, contributing to the economies of our nations and regions, and creating diverse and risk-taking content."*

As the Government will be aware, in 2020 we launched our Future4 strategy, which has been designed specifically to address the challenges identified by DCMS. Future4 builds upon our strong track record of digital innovation and is accelerating our pivot to digital by driving both online viewing

¹⁵ Ministerial foreword to DCMS Consultation on a potential change of ownership of Channel 4 Television Corporation, updated 8 July 2021.

Question 1 continued

and new revenues. It is an ambitious and comprehensive plan to transform Channel 4 into a digital PSB that retains its distinctive brand and public service impact.

Our transformation into a digital-first entity is planned with key targets. By 2025, we will:

- **Double viewing on All 4**, to reach two billion streaming views by 2025;
- Deliver **30%** of total revenues from **digital advertising**; and
- **10%** of total revenues from **non-advertising** sources.

In so doing, we will address head-on the market challenges outlined above. In particular, we are prioritising digital growth over linear ratings in line with changing viewing behaviour; and we are diversifying our revenue base – through initiatives including the expansion of 4Studio (our Leeds-based digital content agency), the Global Format Fund, our venture funds, and enhanced digital distribution partnerships.

This strategic approach builds on our well-established track record of evolving our business model in the face of market disruption and change:

- **Stable revenue base:** As shown below in Figure 3, over the past decade Channel 4's revenues have remained broadly stable – despite the structural changes DCMS allude to, 2021 is forecast to be our best ever year in revenue terms.

Figure 3: Total Channel 4 revenues

2010–2021F (£m)

2010	935
2011	941
2012	925
2013	908
2014	938
2015	979
2016	995
2017	960
2018	975
2019	985
2020	934
2021F	1,112

- **Rapid growth in digital viewing and revenues:** We have evolved and expanded our business model to grow video on demand (VoD), and substantially increase digital revenues:

Figure 4: All 4 views growth

Millions of views, 2010–2021F

2010	309
2011	380
2012	402
2013	413
2014	492
2015	512
2016	620
2017	727
2018	915
2019	995
2020	1,253
2021F	1,548

2010–2020
CAGR = 15%

25m
users currently
registered on All 4

72% of 16–34s
are registered on All 4

Question 1 continued

Figure 5: Channel 4 digital revenues

2010–2021F (£m)	
2010	19
2011	27
2012	39
2013	47
2014	50
2015	66
2016	84
2017	100
2018	120
2019	145
2020	161
2021F	211

2010–2020
CAGR = 24%

In 2021, expected to account for
19%
of total revenues

- Growth in digital revenues is compensating for linear challenges:** Looking over the five-year period from 2017 up to and including our forecasts for 2021, we find that linear revenues have declined by only c. 2%, whilst digital revenues have increased by c. 110%; with overall revenues expected to be over £100 million higher in 2021 than in 2017. Digital advertising markets are continuing to grow rapidly, and Channel 4's Future4 strategy is well positioned to exploit this growth.
- Future4 is delivering demonstrable success:** Over 2020, All 4 streaming views were up 26% year-on-year; and All 4 growth has continued in 2021, with streaming views in 2021 to date up 29% on the same period in 2020. We are forecasting 1.5 billion streaming views by the end of 2021 – which means that, only one full year into the Future4 plan, we expect to have already closed half of the gap to the 2025 target of 2 billion views. We return to the topic of Channel 4's recent success – and a comparison with that of its competitors – later in this section.

With Future4, we are focusing on rapidly-growing digital markets

In reading the consultation document, we note that the Government appears to conflate potential challenges in linear advertising with

challenges to advertising-funded models in general. We consider that this conflation is incorrect, for a number of reasons:

- Digital advertising markets are robust:** In the UK and around the world, digital advertising markets are growing rapidly. In 2020, for instance, internet advertising in the UK grew by 6%, whereas all other segments of advertising markets saw pandemic-related declines¹⁶. To date, 2021 has seen very rapid digital advertising growth – as demonstrated, for instance, by Alphabet's Q2 2021 financial results, which showed Google advertising revenues up 68% year-on-year¹⁷. Digital advertising revenues are growing, and our Future4 strategy is therefore focusing on routes to growth. We note in this regard that we expect our 2021 digital advertising revenues to grow 32% on 2020.
- Consumer behaviour is showing continued support for a plurality of business models and services – both subscription and advertising-funded:** Implicit in DCMS's expressed concerns over Channel 4's advertising-funded model is a suggestion that consumers increasingly prefer subscription VoD services. Whilst the growth of SVoD services is plain to see, the evidence also demonstrates that there are limits to growth – and that we will continue to be in a hybrid world of revenue models, and not one dominated by subscriptions or any other single source. Market experience shows that, as subscription businesses reach maturity, the focus shifts from growth to churn reduction. We have seen this in the UK with Sky's satellite platform, which reached ten million subscribers in 2010, but which has not experienced further growth in its satellite subscriber base. Indeed, BARB data shows that Sky and Virgin Media subscriptions have fallen, demonstrating that these businesses also face challenges from the market changes DCMS have highlighted. Netflix's recent Q2 results also demonstrate that it may be reaching maturity – with Netflix losing 430,000 subscribers in North America during the quarter, suggesting it is now reaching saturation in its largest markets. Further, advertising-funded VoD services are continuing to grow around the world: for instance, Viacom's advertising-funded Pluto TV is expected to generate over \$1 billion by the end of 2021, up from only \$70 million in 2018¹⁸. There is therefore clear evidence that audiences value content that is free to view. This matters both commercially: in that it underpins the sustainability of advertising-funded services; and in terms of public service media: it is important that PSBs, including Channel 4, continue to serve the entire population, regardless of the latter's willingness and ability to pay for subscription content.
- Further, broadcast advertising remains robust and valued by advertisers:** Due to increased competition, UK broadcasters' share of total video viewing has been declining. But, despite trends in viewing, broadcaster TV (across both digital and linear) remains particularly cost effective at delivering mass reach. (We have provided further information on the impacts on advertisers in our answer to Question 6e). Thinkbox data shows below demonstrates that broadcaster TV accounts for 64% of the video viewing day and 91% of video advertising time. This suggests continued effectiveness of broadcaster TV in driving advertising attention, and therefore revenues.

¹⁶ Advertising Association/WARC Expenditure Report <https://expenditurereport.warc.com/>

¹⁷ Source: Alphabet Q2 2021 earnings release, available at: https://abc.xyz/investor/static/pdf/2021Q2_alphabet_earnings_release.pdf

¹⁸ See, for instance: <https://www.hollywoodreporter.com/business/business-news/viacomcbs-ceo-pluto-tv-billion-revenue-1234963031/>

Question 1 continued

Figure 6: Breakdown of video viewing time per day

2020
Source: Thinkbox

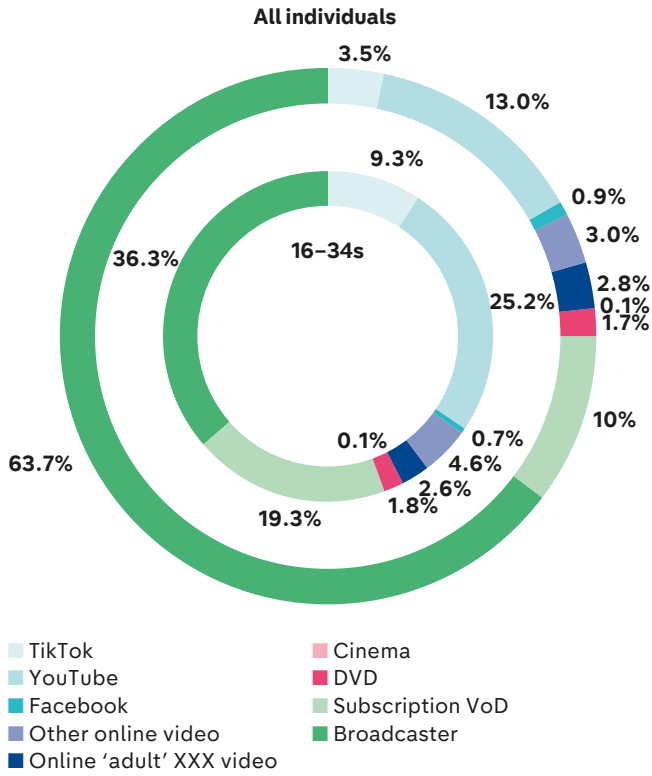
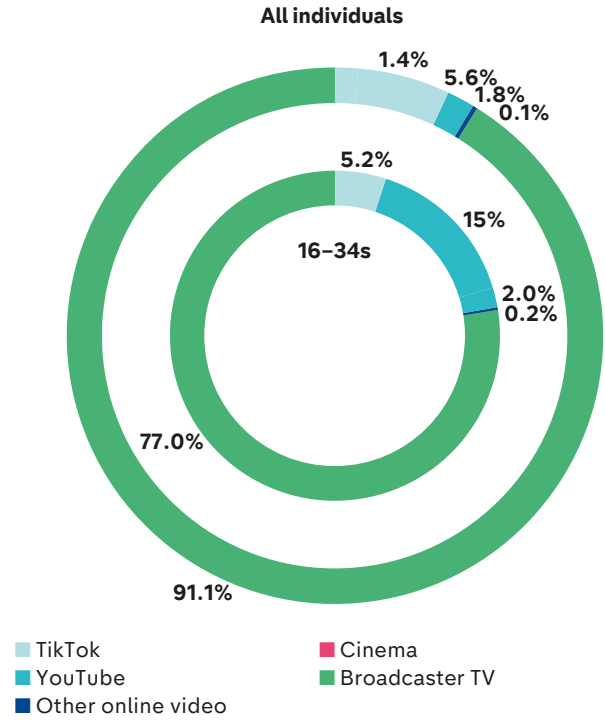


Figure 7: Breakdown of video advertising time per day

2020
Source: Thinkbox



Question 1 continued

Channel 4's public ownership enables it to be able to adapt to market change more effectively than our competitors

We have noted thus far that Channel 4 has a strong track record of adapting to market change, and that – whilst the challenges we face are real – our Future4 strategy is successfully addressing those challenges head-on. It is also important to stress that there is no linkage between these market challenges and Channel 4's public ownership: as we set out below, not only do these challenges apply to all commercially-funded broadcasters, but also the evidence suggests that Channel 4 is addressing these challenges more effectively than our competitors. Our experience is that this is a direct result of our public ownership and our ability to move quickly and adapt to changing market conditions.

We recognise that ITV is pursuing its own business strategy, but believe a comparison with ITV can be helpful in addressing the question about whether private ownership in fact increases the ability to adapt:

- ITV has not pivoted to digital in the same way as Channel 4: during 2020, when Channel 4 experienced 26% growth in streaming views, ITV saw its digital viewing decline by 5%¹⁹
- During the first half of 2021, whilst All 4 views have grown 30% year-on-year, ITV has seen only 6%²⁰ growth in digital viewing. As an aside, Channel 4's digital growth has also outpaced that of the BBC: with iPlayer views in the first half of 2021 up 8%²¹ compared to the same period in 2020
- Independent analysts suggest that ITV continues to be a linear-first business, with Enders Analysis recently noting that at ITV *"there continues to be a reticence to deviate from the riches of the traditional linear model"*²²

A broader analysis shows that Channel 4 is a market-leader in pivoting our business to digital advertising:

- In 2020, our digital advertising revenues were £161 million, representing 17% of total corporation revenue of £934 million, and 19% of total advertising revenues of £850 million
- In contrast with Channel 4's transparency in this area, we note that very few other broadcasters publish splits of linear and digital advertising revenues. We have reviewed financial data for UK and European peers and note that there is published data for ProSiebenSat.1, for which digital advertising was 9% of total advertising revenues in 2019
- For the UK market as a whole, WARC data shows that digital advertising was 14% of total UK TV advertising revenues in 2020
- If we strip out Channel 4 figures from 2020 WARC market totals, this implies that the rest of the UK market (outside Channel 4) had an average 12% digital share of total advertising revenues²³ – compared with Channel 4's 19%

Channel 4's ability to adapt to market change is also demonstrated by our operational effectiveness, and the agility in our business model. This is evidenced by our ability to generate far more revenue per staff member than our PSB peers. In particular²⁴:

- For each staff member, Channel 4 generates over £1 million in revenue, more than double the revenue-generation rate of ITV, and almost five times that of the BBC. Even if the comparison is limited to the BBC's commercial activities, Channel 4's revenue generation is significantly ahead that of the BBC's commercial arm
- Channel 4's operational agility meant that the pandemic-related downturn had a lesser impact on our revenue-generation rate, than that of our PSB peers: in 2020, Channel 4's revenue per capita declined by 6% – in contrast to ITV's 14% decline in revenue per capita, and a 10% decline in the BBC commercial arm's revenue per capita

2020 performance

Our financial performance in 2020 provides further evidence of the resilience of our business model. Channel 4 ended 2020 with a financial surplus of £74 million – our highest-ever surplus – and cash reserves of £201 million. As detailed below, this was a result of efficient cost-cutting across the business followed by growth in digital and linear viewing and strong return in the advertising market. This robust financial performance meant that we also repaid all furlough money and have repaid the £75 million revolving credit facility without having to use it. We are therefore carrying no debt at present.

Since these results were published, it has been claimed that Channel 4's strong performance was only attributable to its reduction in content spend, and that this foreshadows future challenges for the organisation. It is important that we clarify the situation we faced in spring 2020 and how we responded:

- When the pandemic-related lockdown began in spring 2020, the production sector largely shut down, and there was a very material downturn in the wider economy. We and other commercial broadcasters faced an unprecedented economic downturn, and Channel 4's agile business model (characterised by low fixed costs) enabled us to adjust our expenditure in order to manage cash flows, whilst remaining operationally effective
- It is worth noting that in response to this unprecedented economic shock, all broadcasters temporarily reduced content investment. For instance, ITV reduced its network schedule costs by £156 million in 2020²⁵. In Channel 4's case, around two-thirds of the 2020 reduction in content investment related to programming that simply could not be made, as a result of the COVID restrictions – this was not a discretionary reduction on the part of Channel 4

19 Slide 8 of ITV plc 2020 full year results presentation, available at: <https://www.itvplc.com/~media/Files/I/ITV-PLC/documents/reports-and-results/ITV%20Plc%202020%20Full-Year%20Results%20Presentation.pdf>

20 Slide 8 of ITV plc 2021 H1 results presentation, available at: <https://www.itvplc.com/~media/Files/I/ITV-PLC/documents/reports-and-results/ITV%20Plc%202021%20Half-Year%20Results%20Presentation.pdf>

21 BBC press release, published 29 July 2021: <https://www.bbc.co.uk/mediacentre/2021/iplayer-top-10-jan-jun>

22 Enders Analysis, 'ITV: Back to 2019', published 2 August 2021.

23 Channel 4 analysis of WARC data.

24 Figures in the bullets which follow are from analysis of published financial data in broadcaster annual reports, related to revenues and employed staff members.

25 Source: ITV Annual Report 2020.

Question 1 continued

- In this context, when the advertising market recovered in Q4 of 2020, advertisers and agencies considered Channel 4 to be an attractive place to allocate advertising spend. As a result, over 2020 as a whole, we generated more than sufficient revenues to cover our costs – thereby generating a surplus
- Further, we have increased our programming investment as the economic environment has improved: total content investment in 2021 will exceed 2019 levels, and 2022 content investment will be higher still

Several important lessons flow from this analysis:

- First, the timing effect: our business model enables us to respond rapidly to market change – both in order to reduce costs where necessary, and to generate revenues. As noted earlier, our ability to do this is arguably greater than our PSB peers – with our revenue generation holding up better than our peers
- Second, the 2020 experience demonstrates the resilience in our business model, and the merits of being a relatively small organisation, but one that has sufficient weight with viewers and advertisers to enable continued success. Channel 4 was able to adapt to extreme circumstances, and we are confident in our continuing ability to adjust to more gradual market change
- Third, that Channel 4's model has proven itself capable of dealing with long-term structural changes. The last ten years have seen SVoD penetration grow from zero to c.70% of TV homes and 16-34-year-old viewing to live TV has halved. Despite this, and the massive economic shock from COVID-19, Channel 4 has continued to reach audiences and 2021 see us deliver our highest revenue ever.

These challenges therefore do not present barriers to a sustainable Channel 4 under public ownership

In this section of our response, we have demonstrated that:

- Channel 4 – and all other UK broadcasters – are facing market challenges
- Channel 4 has a strong track record in adapting to market change, and our Future4 strategy is designed to enable us to drive continued success in a continually changing environment
- Future4 is already delivering success in our pivot to digital, and private ownership is not helping other PSBs to adapt to change more successfully than us

There therefore does not appear to be any linkage between market challenges and public ownership.

We note in this regard that Andrew Griffith MP – a member of the Government's PSB panel – has stated that Channel 4's future contribution may be in *"adding useful scale to another UK-based operator"*²⁶. The Government's consultation document also refers to the 'opportunities for collaboration and scale' that could be provided by a private partner.

It is not clear in this regard that UK consolidation would deliver sufficient scale to compete with the global giants, even if all three commercial PSBs were combined (ignoring for a moment the issues this would create for both media plurality and competition in the advertising market):

- The combined broadcast and online revenues of ITV, Channel 4 and Channel 5 are in the region of £3.5 billion (close to \$5 billion)
- Even this combination would be dwarfed by Netflix – with revenues of c. \$25 billion (five times the scale of a UK PSB combination), and YouTube – with revenues of c. \$20 billion (four times the scale of UK PSB)²⁷

Further, we note that a change of ownership could act as a drag anchor on Channel 4's digital transition – the disruption associated with change of ownership would inevitably slow down our rate of change; and there is a risk that the Government may choose to combine Channel 4 with a larger, less agile organisation that is less able to respond rapidly to market developments. Were this to occur, it would create risks to Channel 4's ongoing success and economic contribution – and to its continued ability to be distinctive, represent the UK as a whole, and fuel the UK's creative economy.

²⁶ Andrew Griffith, "Competition watchdog is dragging us back to the 1950s", Daily Telegraph 23 June 2020.

²⁷ The comparison with Alphabet as a whole is even more stark: with total revenues of \$182 billion representing over 35 times the scale of combined commercial PSB revenue.

Question 2

Would Channel 4, with a continued public service broadcasting licence and remit, be better placed to deliver sustainably against the Government's aims for public service broadcasting if it was outside public ownership? Please provide supporting evidence.

Channel 4 has thrived for nearly 40 years under public ownership. While being 100% commercially funded with zero cost to the taxpayer, it has been a key pillar within the UK's mixed PSB ecosystem and always delivered beyond its licence requirements. Whilst private ownership may incentivise Channel 4 to focus more on maximising revenues and profits, it is likely to undermine its delivery of public service content and the extent to which it champions its remit.

Channel 4 acknowledges the Government's recognition of the valuable role that Channel 4 plays in delivering public service objectives, and that this should be maintained in the decades to come.

The ideal process for considering a potential change of ownership of Channel 4 would be to first begin with a comprehensive discussion around exactly what goals the Government, Parliament and the British people want Channel 4, and indeed the wider PSB ecosystem, to deliver for the next 40 years. This would take account of the "revised set of PSM objectives" recommended by Ofcom in their July 2021 report on the future of public service media²⁸, as well as any input from the Government's PSB Advisory Panel, who were tasked with providing advice on "what a modern PSB system should contribute to economic, cultural and democratic life across the United Kingdom"²⁹. Depending on the outcome of that process the Government could then consider what ownership and model for Channel 4 would be best placed to deliver this new set of goals.

As part of our Future4 strategy we set out a clear updated purpose for the organisation – **to create change through entertainment**. This is centred on the positive impact Channel 4 has on the UK and the world – whether that is economic, social or cultural change. This is underpinned by three key statements that articulate Channel 4's vision – to represent unheard voices, challenge with purpose, and reinvent entertainment.

- **Representing unheard voices** is aimed at capturing Channel 4's commitment to represent the whole of the UK. This includes diverse voices, but it also means anyone whose voice or perspective isn't currently represented widely on screen, such as regional voices, older voices, people with no formal education or training and others. It's also about the creative

industries in the UK and the special role we play in nurturing new talent and smaller companies

- **Challenge with purpose** seeks to capture Channel 4's role in challenging conformity, challenging prejudice and holding power to account, whether that's individuals, Governments or big business. This isn't about always offering the contrarian view but testing conventional thinking and preconceptions
- **Reinvent entertainment** captures Channel 4's long established role as an innovator in the creative industries, across all of our activities: TV, film, streaming, social media and more. This means developing new and emerging talent, finding new ways of reaching audiences, and new ways of working

As a UK public asset, we are of the view that Channel 4 can help support public policy objectives in a way that private companies cannot. This was also the conclusion that DCMS came to when Channel 4's ownership was last looked at by the previous Conservative Government – after an 18-month process the then Secretary of State Karen Bradley said in March 2017 that "The Government has concluded that Channel 4's public service model and remit are important to the continued strength of the UK's broadcasting ecology, and would not be best served by privatisation at this time"³⁰. Karen Bradley has since reflected that key to this decision was that "a publicly-owned Channel 4 could do even more to benefit the whole of the UK"³¹, which led to the subsequent consultation on how Channel 4's public contribution could be enhanced by increasing its regional impact.

More recently, we note the aims for the broader creative industries as set out in the Government's 'Plan for growth' – "to supercharge the sector by driving economic growth, unleashing investment, creating jobs and building on our international competitiveness."³² Channel 4, under public ownership, already plays an important role in delivering to many of the key elements included in the Government's Plan for growth, such as skills, innovation, levelling up, and supporting Global Britain. These are detailed in Figure 8.

28 <https://www.smallscreenbigdebate.co.uk/statement>

29 <https://www.gov.uk/guidance/public-service-broadcasting-advisory-panel-terms-of-reference>

30 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/647724/C4_consultation_document.pdf

31 <https://www.thetimes.co.uk/article/channel-4-means-more-to-the-british-people-than-an-empty-sell-off-xg7p5kq2m>

32 <https://www.gov.uk/government/publications/build-back-better-our-plan-for-growth>

Question 2 continued

Figure 8: Channel 4's contribution to the Government's Plan for Growth

Pillars for growth	Channel 4's contribution
<p>Infrastructure The Government is investing £5 billion "to accelerate UK-wide gigabit broadband roll-out"</p>	By shifting to a digital first PSB Channel 4 can help address the low take up of full fibre and superfast broadband and help to normalise internet use for the persistent 6.3% of UK adults who have never even used the internet.
<p>Skills "Improving our skills is also central to levelling up opportunity as differences in skill levels provide a key part of the explanation for differing output and wages across regions"</p>	Channel 4's 4Skills initiative based out of our National HQ in Leeds – 4Skills is providing opportunities for young people from socioeconomically disadvantaged backgrounds from across the UK to get into the media who otherwise may not be able to.
<p>Innovation "Investment also tends to be regionally concentrated in London and the South East, whilst women and entrepreneurs from BAME backgrounds disproportionately struggle to access the finance they need to start and grow their business."</p>	Our Emerging Indie Fund, Indie Growth Fund and Indie Accelerator are designed to address a lack of access to finance and investment for production companies in the Nations and Regions, which can be one of the major blockers to growth.
<p>Drivers for growth</p>	
<p>Levelling up the whole of the UK</p>	Channel 4's role in the Nations and Regions of the UK is central to our remit and mission as a Public Service Broadcaster. Our 4 All the UK strategy is designed to ensure our impact is spread right across the country, with our offices in Glasgow, Manchester, Bristol and our National HQ in Leeds acting as hubs to draw in investment from others.
<p>Supporting the transition to net zero</p>	By the end of 2021 Channel 4 will mandate that all new productions will have albert certification. We are also working with our partners in the advertising industry on AdGreen, to bring albert style certification to advertising campaigns.
<p>Supporting Global Britain</p>	<p>Channel 4's publisher-broadcaster model provides guaranteed investment in the UK's indie sector and alongside the terms of trade ensures producers can maximise their returns from selling their programmes internationally.</p> <p>Similarly, Channel 4's support for British independent film has resulted in significant success for British film, exporting British talent and creativity all over the world resulting in 37 Oscars for Film4 backed productions.</p>

Question 2 continued

These very same ambitions are likely to be deprioritised under a private company which will typically be more focused on delivering private returns to shareholders than delivering public policy outcomes.

Moving Channel 4 into private ownership would fundamentally alter the incentives and culture of the organisation and this is likely to have inevitable knock-on effects on how Channel 4 delivers its public purposes. As outlined below, when it comes to strategic decisions about where in the UK to invest or which content to commission, a privately-owned organisation would inevitably be incentivised to prioritise profits, whereas public ownership allows Channel 4 to put public value first.

This is further supported by the results of the EY analysis commissioned by Channel 4 to understand the implications of a change in ownership, as noted above.

In our experience, it will be extremely challenging to ensure that a privatised Channel 4 delivers the same public benefit through regulation; it is difficult for the statutory remit to specify exactly how Channel 4 should operate, and Channel 4 – driven by its public mission – takes a ‘maximalist’ approach to delivering on its remit. Channel 4 under public ownership seeks to exceed and expand on its public service delivery – for example consistently exceeding quotas on regional production and, introducing a range of voluntary initiatives designed to foster diversity in the industry. These include Black To Front, in which we broadcast 24 hours of television showcasing Black talent on and off screen with the aim of creating a lasting legacy to improve representation in the TV industry, our Diversity in Advertising Awards, and making significant investments in skills and training across our wider supply chain. Privately-owned commercial PSBs typically seek to minimise their public service obligations and therefore are less likely to prioritise these voluntary initiatives that are not directly revenue generating.

While Channel 4 believes that both ITV and Channel 5 play an important role in the wider public service landscape, it is clear from recent policy debates that the contribution of the privately-owned public service broadcasters is not guaranteed. Privately-owned PSBs are not seeking to expand their public service offering, they are questioning whether they should continue it at all or are looking for contestable public funding to help them deliver it.

Indeed, ITV’s response to Ofcom’s review of public service media states *“It is clear that ITV’s future contribution should not be taken for granted. Nor should its continuing participation in the system – we are keen to remain a PSM, but not at any price.”*³³ Viacom’s (Channel 5’s) response to Ofcom’s review calls for further contestable public funding to help support their delivery of loss-making public service genres like current affairs, documentaries and even specialist factual³⁴.

ITV and Channel 5 have broadly reduced their PSB obligations over time as the value of the benefits (Spectrum and Prominence) they receive in return for those obligations have diminished over time. For ITV the most notable reductions came in 2009 when they decreased their regional news by 30%, their sub-regional news by 70%, their current affairs by almost half (78 to 43 hours) and their out of London quota from 50% to 30%. Similarly, in the same year Channel 5 reduced news provision by one-third and both originations (total) and peak originations. Earlier in 2021 Channel 5 applied to Ofcom for a further reduction in their news provision³⁵. Minimising their exposure to what are often loss making activities is a perfectly reasonable approach for a profit motivated organisation to take, but Channel 4 is able to take a different approach because of its ability to prioritise public purpose over commercial outcomes – underpinned by our public ownership and not for profit model.

On the basis of this evidence, Channel 4 believes that rather than being better placed to deliver against the Government’s aims and objectives for public service broadcasting, there is significant risk that this ability will actually be undermined in the event of a change of ownership. We encourage the Government to consider this carefully in its decision-making about any change in ownership for Channel 4.

33 https://www.ofcom.org.uk/_data/assets/pdf_file/0022/218515/ITV.pdf

34 https://www.ofcom.org.uk/_data/assets/pdf_file/0025/218491/viacom-ssbd.pdf

35 https://www.ofcom.org.uk/_data/assets/pdf_file/0014/221252/5-news-licence-change-request.pdf

Question 3

Should Channel 4 continue its contribution to levelling up the regions and nations of the UK through retaining a presence outside London and a strengthened regional production remit? Please provide supporting evidence.

Channel 4 strongly believes that we should continue our significant contribution to levelling up the Nations and Regions. Our commitment to this goes significantly beyond what would be commercially optimal if we were seeking to maximise commercial returns, both in scale and scope. We are therefore concerned that private ownership would lead to a scaling back of this substantial contribution.

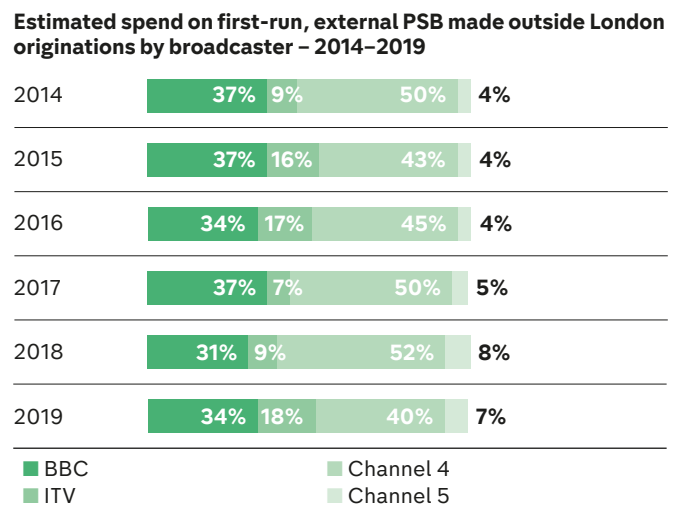
The Channel 4 remit prescribes us to champion unheard voices and to stand up for diversity across the UK. ‘Levelling up’ the Nations and Regions is therefore a core element of Channel 4’s delivery. Channel 4 strongly believes that its contribution to the Nations and Regions of the UK should be maintained – and under the current model and strategy has plans to continue to grow our commitment in this area. However, we have serious concerns about whether the same contribution would be possible in a company with a profit-driven motive. As noted in our previous answer, under the current model of public ownership Channel 4 is not just a broadcaster but a valuable policy intervention for delivering national priorities like ‘levelling up’. Free from the need to prioritise profits above public purpose, Channel 4’s model enables us to put our societal impact at the heart of our mission and strategy, aligning to the needs of the country. We are owned by the British public right across the UK and that gives us a responsibility to serve the British public of all ages and in every Nation and every Region. Our public ownership and publisher-broadcaster model together explain why Channel 4 consistently spends more with independent producers in the Nations and Regions than any other broadcaster.

Driven by this overarching public purpose we are working to ensure that the social, economic and cultural benefits Channel 4 brings are spread right across the UK. This includes developing clusters in areas such as Yorkshire, Scotland and the South West, as well as creating specific partnerships and strategies for growth in areas currently underserved. This work requires a long-term commitment and investment which stems from our duty as a publicly owned broadcaster with a responsibility to deliver equitably across the UK. Our commitment to the Nations and Regions goes beyond our minimum regulatory requirements in a way that would not be matched if Channel 4 was privately owned. It is not just that we exceed our quotas, but we commit to the Nations and Regions in ways that would be hard to mandate through regulation.

According to Ofcom data, independent production outside London generated more than £1 billion of revenue in 2019, of which commissioning for the main five UK PSB channels accounted for 61%. Whilst the vast majority of the BBC and ITV’s out of London spend is through in-house production, as a publisher-broadcaster Channel 4’s roughly £200 million out of London spend is instead spent entirely with external production companies.

In the past ten years Channel 4 has invested over £1.5 billion in content made outside of London and analysis from Oliver & Ohlbaum has shown that Channel 4 consistently spends significantly more with independent producers in the Nations and Regions than any other broadcaster, having increased our spend every year from 2015–2019 (see figure 10). This illustrates why Channel 4, and its publisher-broadcaster model, play a critical role supporting the production sector outside of London.

Figure 9: Share of external made outside London originations spend by broadcaster



Question 3 continued

Figure 10: Absolute spending on made outside London PSB network originations by broadcaster

Estimated spend on first-run PSB MoL originations by type of producer – 2014–2019 (£m)

Broadcaster	Year	External production spend (£m)	In-house production spend (£m)	Total (£m)
BBC	2014	97	406	527
	2015	101	336	452
	2016	114	388	523
	2017	121	346	482
	2018	100	403	518
	2019	144	330	497
ITV	2014	23	323	347
	2015	43	320	363
	2016	58	218	276
	2017	24	220	244
	2018	30	229	259
	2019	77	255	332
Channel 4	2014	132	18	150
	2015	116	29	145
	2016	148	18	166
	2017	162	23	185
	2018	166	20	187
Channel 5	2014	11	0	11
	2015	12	0	12
	2016	12	0	12
	2017	16	0	17
	2018	26	0	29
2019	31	0	33	

■ External production spend
■ In-house production spend



Channel 4 Leeds HQ

EY analysis published earlier this year provided a quantitative assessment of Channel 4's economic impact on the UK, particularly outside of London. This found that 90% of Channel 4's impact is in its supply chain, including supporting 10,000 jobs across the UK. Channel 4 contributes around £1 billion a year to GVA spread across the UK including £105 million in the North of England, £36 million in Scotland and £20 million in Wales (see figure 11) and supports over 10,600 jobs across its supply chain, of which nearly 3,000 were outside of London (see figure 12).

These figures are based on 2019 data and therefore provide a foundation for significant growth as we work to increase this regional investment further through our new 4 All the UK plan, a comprehensive strategy for pan-UK investment and growth. In 2020 we achieved our highest-ever level of investment outside London on the main channel, with 47% of our expenditure on first-run originated programming sourced from suppliers in the Nations and Regions. In 2021 we are on track to deliver 50% of spend outside London – meeting our 2023 voluntary commitments two years early.

Figure 11: Indirect and induced GVA generated by Channel 4 by region and UK-wide direct GVA, 2019

Region	GVA (£m)	GVA (%)
Scotland	36	4%
Northern Ireland	8	1%
Wales	20	2%
London	650	66%
North of England	105	11%
Midlands	16	2%
South of England	88	9%
UK-wide direct GVA	68	7%
Total	992	100%

Source: EY analysis of financial data provided by Channel 4. Totals may not sum precisely due to rounding.

Figure 12: Jobs supported by Channel 4 (including direct, indirect and induced effects), 2019

Region	Jobs (Number)	Jobs (%)
Scotland	374	4%
Northern Ireland	81	1%
Wales	200	2%
London	7,739	73%
North of England	1,132	11%
Midlands	161	2%
South of England	929	9%
Total	10,616	100%

Source: EY analysis of financial data provided by Channel 4. Totals may not sum precisely due to rounding.

Question 3 continued

'4 All the UK'

In 2018 Channel 4 announced our 4 All the UK strategy, the biggest structural change in the organisation's history, aimed at supercharging our impact across the UK with an increased presence across several different regions, in terms of our new National HQ and two creative hubs. As an institution that prioritises public purpose, we were able to change the entire geography of the organisation, investing millions of pounds in a transformative strategy to more fully represent and serve the whole of the UK. We also voluntarily committed to significantly increase our Nations and Regions content spend to 50% on the main channel by 2023 (well above our Ofcom quota of 35%). This represented up to an additional £250 million of investment in the Nations and Regions during the period to 2023 alone. It also included a major boost to regional representation, with *Channel 4 News* to be regularly co-anchored from a new studio in Leeds and our flagship daytime show *Steph's Packed Lunch* broadcast daily from Yorkshire.

We have been moving at pace with those plans, surpassing our targets and expanding on our original ambitions. We are on track to hit our target of 50% of originated spend with Nations and Regions producers in 2021, two years early, with a record £200 million of Nations and Regions spend across our portfolio in 2021. We see this 50% as a floor, not a ceiling, and want to continue to increase our regional impact. By the end of 2021 we will have around 400 jobs based in the Nations and Regions in not one but four offices outside London – our burgeoning bases in Manchester, Glasgow and Bristol and our National HQ in Leeds. A private owner would have a cost-cutting incentive to reduce to one or two core offices. It is not only the number but also the type of roles that is key to supporting growth and shifting the centre of gravity away from London. This includes senior commissioning roles from across a range of genres, including the heads of Daytime and Features, Drama and Sport, with our biggest commissioning department now based outside London. It also includes our rapidly growing 4Studio team, a key part of our business that is generating new digital revenue streams.

The prominent position of our National HQ in the centre of Leeds sends a clear message to young people in the region that the broadcasting industry is open to them. It has already been the catalyst for a clustering of TV, film and creative organisations in the city and surrounding area. This includes a number of independent production companies springing up in the city, UK TV establishing a new Leeds based hub, trade association Pact opening its only out of London office in the city and the country's first Centre of Screen Excellence launching there last year.

Our 4 All The UK strategy is a framework we intend to build on over the coming years – by ensuring that Channel 4's economic impact is felt in as broad a range of regions as possible. We believe we are only just getting started in our plans to drive economic growth outside London – with growing headcount in our regional offices, Channel 4 News to open a Leeds hub later this Autumn and new commitments to invest even more in our regional skills initiatives to provide real aspiration and opportunity to young people outside London. However, given the long-term investment it requires to build creative clusters of scale, it is important that this work is not derailed. There is a risk that under a change in ownership, this kind of long-term regional ambition will be less of a priority for an organisation that has to prioritise return to shareholders.



In our bid for Channel 4's new National HQ, we called on the broadcaster to move to Leeds and 'Be the spark'. It could have followed the other TV giants to Birmingham or Manchester but this was an opportunity for Channel 4 to think differently, to take bold, creative risks – just as it was set up to do. **This was a chance for Channel 4 to rebalance the UK broadcasting sector and to spark real change.** Channel 4 has brought new opportunities to – and been benefiting from – the region's unique modern British voice and our young, diverse, creative, digitally-savvy population."

Sir Roger Marsh, Chair, Leeds City Region Enterprise Partnership and NP11

ALICIA DALRYMPLE

Having studied media production at Derby University and built up work experience as a runner, production assistant and live event coordinator, Alicia moved to Sheffield in the hope of finding a full-time job.

Instead, she found herself unemployed, stuck in a bad relationship and struggling with anxiety and depression. "It was a tough time," she says.

Alicia was referred to Crisis, the national charity for homeless people, who helped her to look for work and ultimately get a place on Channel 4's Rio Paras Production Training Scheme in 2016. "Rather than typing out my application, I could send in a video," recalls Alicia. "I'm dyslexic, so that made a world of difference. It brought out the best in me."

She became a Production Secretary for London-based Lime Pictures, working on shows including Channel 4 documentary *Too Posh To Parent*. "I was eager to work and was always given a lot of responsibility," says Alicia. After a stint in Rio working as a production coordinator on the 2016 Paralympic Games, she returned to Lime Pictures for a new series of *Celebs Go Dating*.

Alicia currently works as a freelance senior production coordinator, with recent projects including BBC Two's *Surgeons: At the Edge of Life* and BBC One's *Ambulance* and hopes to move up the ladder to become a junior production manager.

"Channel 4 is where I've felt the most comfortable and most nurtured," she says.



If it wasn't for the Channel 4 Production Training Scheme, I don't know where I would be. It was life-changing."



Alicia Dalrymple, Channel 4 Production Trainee Scheme Graduate

PAUL CONSTABLE

Paul joined Channel 4 as part of its apprenticeship scheme back in 2011. He was one of the first apprentices to join the organisation. Now, nine years on, he's an associate product manager, responsible for leading on the Paralympic Games. "In some ways, I've come full circle," he says. "I got my first big break working on the 2012 Paralympics for Channel 4. That apprenticeship has been everything to me."

The apprenticeship gave Paul the chance to move around the business, trying out different roles and departments. "If I said I was interested in something, I was given the opportunity to try it," he says.

Having made a success of his apprenticeship, Paul was approached to become the line manager for a young apprentice, Jacob. "I wouldn't be here without that scheme so it was a chance to give him the same experience that I'd benefited from," he says.

"At 18, I didn't know what I wanted to be. That's why I never went to university. Through this process, I found my passion," he adds. "I can't believe how much has happened over the last 10 years. I never thought I would be in this role, leading on the Paralympics. It's almost surreal."



Once you find a passion for something, Channel 4 helps you to make it happen."



Paul Constable, Former Channel 4 Apprentice

Question 3 continued

Levelling up opportunities and investing in training and skills

Channel 4's contribution to regional economic growth goes beyond the voluntary 50% of spend and hours commitment and the four offices outside London, to include a number of key strategic interventions as part of our wider 4 All the UK strategy.

Through 4Skills we are turbocharging our efforts to find, nurture and develop talent in the Nations and Regions and open up opportunities in broadcasting. 4Skills is playing an important role in levelling up, delivering extensive training, skills and outreach work across the Nations and Regions, bringing new voices and perspectives into the industry and addressing skills gaps that could restrict growth. It includes apprenticeship opportunities across all of our offices and a wide range of departments; our flagship Production Training Scheme which partners with independent producers to provide entry level opportunities to people across the country from underrepresented groups; our new social mobility focused Content Creatives pilot where we have worked with social enterprise SharpFutures and Jobcentre Plus and DWP work coaches in Yorkshire to offer opportunities to young people who might not typically consider a career in the broadcast industry; and our Factual Fast Track Scheme which supports progression and addresses skills gaps in regional production sectors, which we are now rolling out to other Nations and Regions after a successful pilot in Wales.

4Skills also includes a package of outreach work to encourage young people across the country to consider a career in broadcasting, including partnerships with organisations like Babba in Bristol or as the lead partner in Bradford's new screen strategy. Driven by our public purpose and ownership model, our investment in training skills and outreach goes far beyond any specific remit requirements and has benefited over 10,000 people since 2015. It is more important than ever that this work continues given the impact of the pandemic on young people's employment and opportunities.



Channel 4's new National HQ in Leeds sends a hugely important message of inspiration, aspiration and ambition. It says: 'You can be part of this industry. You don't have to move 200 miles away. You can make a career from here.' For the whole region, and particularly for the more economically deprived parts of Yorkshire, that is game changing."

Sally Joynson, CEO, Screen Yorkshire

In September 2021 we announced a bolstering of these initiatives – including £5 million to reach 15,000 young people annually with training and development initiatives from 2022; a new digital academy including paid three-month training and work placements for young people from lower socioeconomic backgrounds; and a new pan-UK schools engagement programme.

These investments reflect our commitment to the creative industry, borne out of our publisher-broadcaster status, and ownership model. A private owner of Channel 4 may consider these investments a useful place to find cost savings.

Levelling up SMEs by supporting the growth of businesses outside London

Channel 4 is also contributing to regional economic growth through our investment in independent production companies during their different stages of growth. A lack of access to finance and investment can be one of the major blockers to growth, so our Emerging Indie Fund, Indie Growth Fund and Indie Accelerator are designed to address this, providing not just funding but also bespoke support and mentoring from across the business.

In its first year, the new Emerging Indie Fund – which replaced our previous Alpha Fund – is helping 11 indies right across the UK to break through key stages of growth, providing discretionary awards to a further five companies. This includes companies in Stockport, County Down, North Yorkshire, Brighton, Glasgow and Criccieth in North Wales. Our separate Indie Accelerator is working with ten companies across the country with ethnically diverse leadership. The majority of those companies are outside London in places like Margate, Leeds, York, Cardiff and Belfast. Channel 4's Indie Growth Fund – our Leeds-based investment arm – is providing additional support to the UK's independent creative sector by investing in UK-based SMEs, taking minority stakes to help them to grow their business to the next stage and providing them with mentoring, advice and other support alongside financial investment. The Fund prioritises investment in the Nations and Regions, diverse-led and digital businesses across the UK.

Outside of content production, Channel 4 has sought to find innovative ways to support and develop other SMEs, particularly outside London. Channel 4 set up Channel 4 Ventures in 2015 to invest in early stage businesses across the UK, using its media inventory for equity stakes. The fund has made over 30 investments since launch including the Meatless Farm in Yorkshire, Crowdcube in Exeter and Bank North in Manchester.

Many independent production companies outside London cite Channel 4's model and support for Nations and Regions production companies as pivotal in their decision to establish a business outside London and in their subsequent success. Channel 4's publisher-broadcaster status and rights model allows independent producers in the Nations and Regions to retain IP and export content rights globally, providing those companies with additional income streams that allow them to invest in further growth.

Question 3 continued

Film4 investment in the Nations and Regions

Film4 also makes a valuable contribution to levelling up. Over the last 10 years, £40.2 million of Film4 investment has generated £163 million spend on films shot predominantly in the Nations and Regions. By showcasing different parts of the UK these films project the UK's Nations and Regions on a global stage and make an important contribution to UK inbound screen-tourism which was worth £600 million a year prior to the pandemic. For example Visit Scotland and Ryanair both promote various locations featured in Film4's *Trainspotting* and *T2 Trainspotting* to attract visitors, and a new Screen Yorkshire and Welcome to Yorkshire website www.filmedinyorkshire.co.uk uses Channel 4 and Film4 productions to promote tourism to Yorkshire locations including Halifax, Scarborough and Hull.

Partnership work

Building close partnerships with Nations and Regions stakeholders has been key to successfully delivering our strategy and levelling up impact. Our model has supported this, making us a highly valued partner – with a guiding public purpose and powerful brand – that can bring something unique to our partnerships and unite different groups behind a shared vision. This is helping us to establish new partnership agreements with screen agencies across the UK and other industry bodies like Create Central in the West Midlands.

Having taken the decision to move to Leeds, Channel 4 worked closely with the Leeds City Region Enterprise Partnership (LEP), Council and Screen Yorkshire, setting up a partnership board to develop and implement a joint strategy. We took time to engage with the sector in the region, to understand key challenges and barriers to growth. These challenges include, firstly, the availability of talent and need for training and skills, and, secondly, access to the finance and investment business support needed for growth. This engagement has informed the development of our skills initiatives and investment in small companies outlined above.

Protecting Channel 4's levelling up contribution

Together these innovative, interrelated areas of work provide a holistic, joined up strategy for levelling up that is designed to deliver maximum impact for the British public. Channel 4's ongoing work provides a valuable case study and key insights for the Government's levelling up agenda. As the country recovers from the pandemic it is more important than ever that this work, and the growth and momentum that it is generating, continues.

We welcome the Government's recognition of this important work and that it will seek to maintain this even under a change in ownership. However, we strongly believe that Channel 4's public purpose and publisher-broadcaster model have been pivotal in driving this level of commitment and investment, going far beyond what is required in our remit in scale and scope. While the Government have suggested potentially making the Leeds office a condition of sale in any transaction and potentially mandating a certain level of commissioning spend being directed towards small companies, it is difficult to see how the extent and breadth of Channel 4's investment across the UK could be protected under a model of private ownership. EY's analysis found that *"privatisation with an updated quota and new commitments could still reduce Channel 4's contribution to GVA in its supply chain in the Nations and Regions by 18%"*.

We would also note that the Government is highly unlikely to be able to provide a long-term guarantee for Channel 4's regional commitments – for example in the event of a re-sale of Channel 4 by its new owner or if its owner is purchased in turn by another organisation. We note, for example, the experience of Kraft (now Mondelez International) when they bought Cadbury – they were criticised for cutting jobs in its UK factories despite promising to safeguard them in takeover documentation³⁶.

We are therefore concerned that a privatised model is unlikely to be the most effective means of guaranteeing Channel 4's current long-term and ambitious commitment to providing jobs and opportunity across the UK.

³⁶ <https://www.thisismoney.co.uk/money/article-1259915/Kraft-promises-Cadbury-melted.html>

WARP FILMS

Sheffield-based Warp Films is the visionary production house behind highly acclaimed films and television programmes including *Dead Man's Shoes*, the BAFTA-winning *This Is England* and subsequent spin-offs, *This is England '88 and '90*, the multi-award-winning *The Virtues*, and controversial cult classic comedy *Four Lions*. According to Warp's joint-CEO Mark Herbert, none of this would have been possible without Channel 4. "Channel 4 backed the first film we launched 18 years ago," he says. "I just want to acknowledge how important Channel 4 and Film4 have been in enabling me to create and sustain a film and TV company." Without the backing from Channel 4, there is no way Warp Films could have remained in Sheffield, he explains, as the city's emerging film talent and creativity would have been absorbed into London. Film4 and Channel 4 have allowed Mark and his team to tell real, authentic stories; the stories they wanted to tell, he says. "Over the last 20 years they have helped me level up, and helped me stay here and create jobs, attract investment, and create projects in and around Sheffield." Warp Films now exports its content all over the world, and its latest production, which brings the drag musical *Everybody's Talking About Jamie* to the big screen, will be shown in 240 countries. Film4's collaboration with Warp, particularly in the company's early years, was instrumental as they built their business. Film4 have partnered with Warp on over 40% of their completed film slate (eight out of 19 films released). From their first feature *Dead Man's Shoes* (2004), Film4 backed eight films in ten years, over half of Warp's feature film slate during their first decade as a creator of feature films.



Question 4

Should the Government revise Channel 4’s remit and obligations to ensure it remains relevant in an evolving broadcast market? If yes, what changes should be made (which could include new freedoms or changes to its obligations)? Please provide supporting evidence.

The Channel 4 remit is a vital element of the UK PSB ecosystem and offers something unique to viewers. While we are clear that we do not wish to dilute this remit, as articulated in our response to Ofcom in the PSB review, we believe the Government and Ofcom should consider modernisation of the remit to better reflect the way viewers now watch content.

We appreciate the Government’s recognition of the importance of Channel 4’s unique, statutory remit and its success to date in delivering it.

Channel 4’s remit

Channel 4’s remit is wide-ranging, with a detailed set of both qualitative and quantitative remit requirements – as set out in Figures 13 and 14.

Figure 13: Channel 4 remit over time

Statutory remit points	
1982–2003	6
2003–2010	5
2010–2021	15
Ofcom quotas	
1982–2003	16
2003–2010	14
2010–2021	16

Figure 14: Channel 4 statutory remit and Ofcom licence quotas

Statutory remit points		
1	Innovation	Innovation, experimentation and creativity in the form and content of programmes
2	Diversity	Appeal to the tastes and interests of a culturally diverse society
3	Young people	Appeal to the tastes and interests of older children and young adults
4	Education	Make programmes of an educational nature and provide educational content for teens
5	Talent	Develop people with creative talent, in particular at the start of their careers and in film
6	Stimulate debate	Support and stimulate well-informed debate
7	Alternative views	Promote alternative views and new perspectives
8	Inspire change	Provide access to material that inspires people to make changes in their lives
9	News	Make relevant news content
10	Current affairs	Make relevant current affairs content
11	Film	Make, distribute and broadcast high quality film
12	Distinctive	Have a distinctive character
13	High quality	Make high quality and diverse programming
14	Multimedia	Make a broad range of media content via different types of communication networks
15	Partnerships	Work with other cultural organisations

Question 4 continued

Ofcom licence quotas		% of output	2018 delivery
1	Original productions all day	56	63
2	Original productions peak	70	81
3	Independent production hours	25	49
4	Out of London hours	35	59
5	Out of London spend	35	45
6	Nations hours	3	10
7	Nations spend	3	8
8	European origin	50	71
9	European indie production	10	28
10	Subtitling	90	100
11	Audio description	10	41
12	Signing	5	5

Ofcom licence quotas		Number of hours	2018 delivery
13	News peak time	208	208
14	Current affairs all day	208	312
15	Current affairs peak	80	156
16	Schools	1	39

Ofcom public service broadcasting licence quotas

Obligation	Channel 4	Channel 5	ITV1
Original productions	56%	50%	65%
Original productions (peak time)	70%	45%	85%
News (hours)	–	280	365
News peak time (hours)	208	120	125
Current affairs (hours)	208	130	43
Current affairs peak time	80	10	35
Out of London (spend)	35%	10%	35%
Out of London (hours)	35%	10%	35%
Nations productions	9%*	–	–
Subtitling	90%	80%	90%
Subtitling voluntary commitment	100%	–	–
Audio description	10%	10%	10%
Audio description voluntary	20%	–	20%
Signing	5%	5%	5%
ITV regional news (England)	–	–	130
ITV regional sub-news	–	–	65
ITV regional non-news	–	–	13

* Channel 4's Nations quota rises from 3% in 2014 to 9% in 2020

The fact that Channel 4 has been able to support the growth of the remit over the last 40 years is thanks in large part to the flexibility of its model and the embedded culture of public service it has developed. Channel 4's remit is the most wide-ranging of all the commercially funded PSBs.

In contrast to ITV and Channel 5, these commitments have increased over recent years as Channel 4 has sought to strengthen its role as a public service broadcaster. This includes additional commitments under the 2010 Digital Economy Act for film and digital as well as a new licence obligation in 2014 to commission 9% of its programming spend outside of England. No other commercial broadcaster has a similar commitment to commissioning from the UK Nations. As outlined in response to Question 3, Channel 4 has also set itself voluntary commitments to invest 50% of programming spend outside London by 2023, a target it will meet in 2021, two years early.

Channel 4's remit is accompanied by a robust accountability process – Channel 4 is required by Ofcom in its Statement of Media Content Policy to set out a clear set of data, including narrative and metrics, that assesses how it has delivered against its remit. This includes a set of outcome-based metrics based on audience perception of our remit delivery – for example, the extent to which Channel 4 is perceived as being strong on measures such as “shows different kinds of cultures and opinions in the UK” and “always trying something new”. This information is published every year as part of Channel 4's Annual Report, and Ofcom publish an accompanying document assessing our remit performance and highlighting areas for improvement. Ofcom have consistently concluded that Channel 4 delivers its remit effectively – most recently praising our commissioning response to COVID-19, our increased regional commissioning and the success of *Channel 4 News* across both television and on social media platforms³⁷.

³⁷ https://www.ofcom.org.uk/_data/assets/pdf_file/0017/220922/C4-SMCP-2020.pdf

Question 4 continued

Updating Channel 4's remit

Our Future4 strategy includes an explicit focus on serving young audiences with public service content, across broadcast, streaming and social platforms. Channel 4's remit already includes a requirement to "cater to the interests of younger children and older adults". However, given the changing nature of consumer habits and the need to reach British young people with trusted, accurate content from this country, the remit could be updated to make clear the central importance of Channel 4's role in serving young audiences.

We also believe that Channel 4's remit, and subsequent licence obligations, should be updated to account for both linear and digital provision. As we noted in our submission to Ofcom's 'Small Screen Big Debate' review, the current PSB framework and the formal licence quota system is still very linear focused. All programming quotas are calculated based on a volume of hours – a measure which, as Ofcom has recognised, cannot be easily applied in a non-linear environment. These quotas do not incentivise Channel 4 to invest in its digital platforms, but instead require us to focus our investment on the main linear television channel, rather than delivering it wherever is most appropriate for our audience. We do not believe this always incentivises the most effective behaviour for PSM delivery, particularly amongst young audiences.

Any modernisation of Channel 4's remit should therefore be aligned with Ofcom's recommendation that broadcasting licences should be modernised and that "updated requirements should cover content produced for audiences across broadcast TV and online". This will enable the regulatory framework to adapt to and promote the essential transition from public service broadcasting to public service media.

Implications of private ownership on remit delivery

While some updates to the remit are possible under private ownership, Channel 4 is of the view that a sale to a private owner is unlikely to be the most effective model for maximum remit delivery.

This is for four reasons:

- First, the 'remit' commitments referenced above – such as regional investment, skills programmes and news – are typically costs to the business rather than revenue generators and are therefore unlikely to be attractive to a purely private owner looking to make commercial returns on their investment. Channel 4's model of public ownership enables it to prioritise the delivery of public purposes over commercial returns – however it is likely that these priorities will be reversed under private ownership. As outlined in our response to Question 2, and as assessed by EY, under private ownership, Channel 4 would be more likely to take a minimalist approach to interpreting our remit and obligations and attempt to deliver it at the lowest cost possible as a 'compliance exercise'. This would undoubtedly result in an overall reduction of Channel 4's remit delivery

- Second, it is very challenging to mandate in legislation or through regulation the delivery of creative outputs such as 'innovation' and 'diversity'. These remit elements are far more qualitative in the nature of their delivery than the more quantitative obligations set out in the licences of privately-owned companies delivering public outcomes – such as the Royal Mail's Universal Service Requirements on the frequency of postal deliveries or BT's Universal Service Obligations around broadband speed. It is very likely that a private owner would reduce its focus on these qualitative – and harder to measure – aspects, negatively impacting on choice of UK content and quality for viewers
- Third, there are limits to what can be mandated through a revised remit. For example, while the Government could mandate Channel 4's voluntary 50% out of London commitment by including it in an updated licence, and even make the National HQ in Leeds a condition of any sale, it is hard to foresee how the Government could require a sustained level of staffing in that office or dictate the type of jobs that would be based there
- Fourth, while the Government may seek to 'bake in' parts of Channel 4's remit to a new licence it is unlikely these will ever grow from the levels the Government sets. Channel 4 has consistently sought to aim high and exceed its regulated remit to deliver maximum public impact. By contrast, privately-owned PSBs have consistently and successfully lobbied to have their remits reduced

These reasons demonstrate that Channel 4's public ownership is explicitly tied to its delivery of its statutory remit, rather than being separate and unrelated issues.

This view is supported by EY, who conclude that "a private owner of Channel 4 would need to balance fulfilling its public service remit with its duty and incentive to generate value for private shareholders. As such, the new private owner of Channel 4 could seek to focus investment on activities that are expected to deliver stronger commercial performance. Under this approach, the new owner of Channel 4 could seek to deliver against its minimum commitments, and could choose not to undertake any additional voluntary actions in excess of fulfilling its remit."³⁸

EY provides a detailed analysis of how Channel 4's remit delivery could change under a change in ownership scenario – as provided in Figure 15.

³⁸ EY, Assessing the impact of a change of ownership of Channel 4, 2021 https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf

Question 4 continued

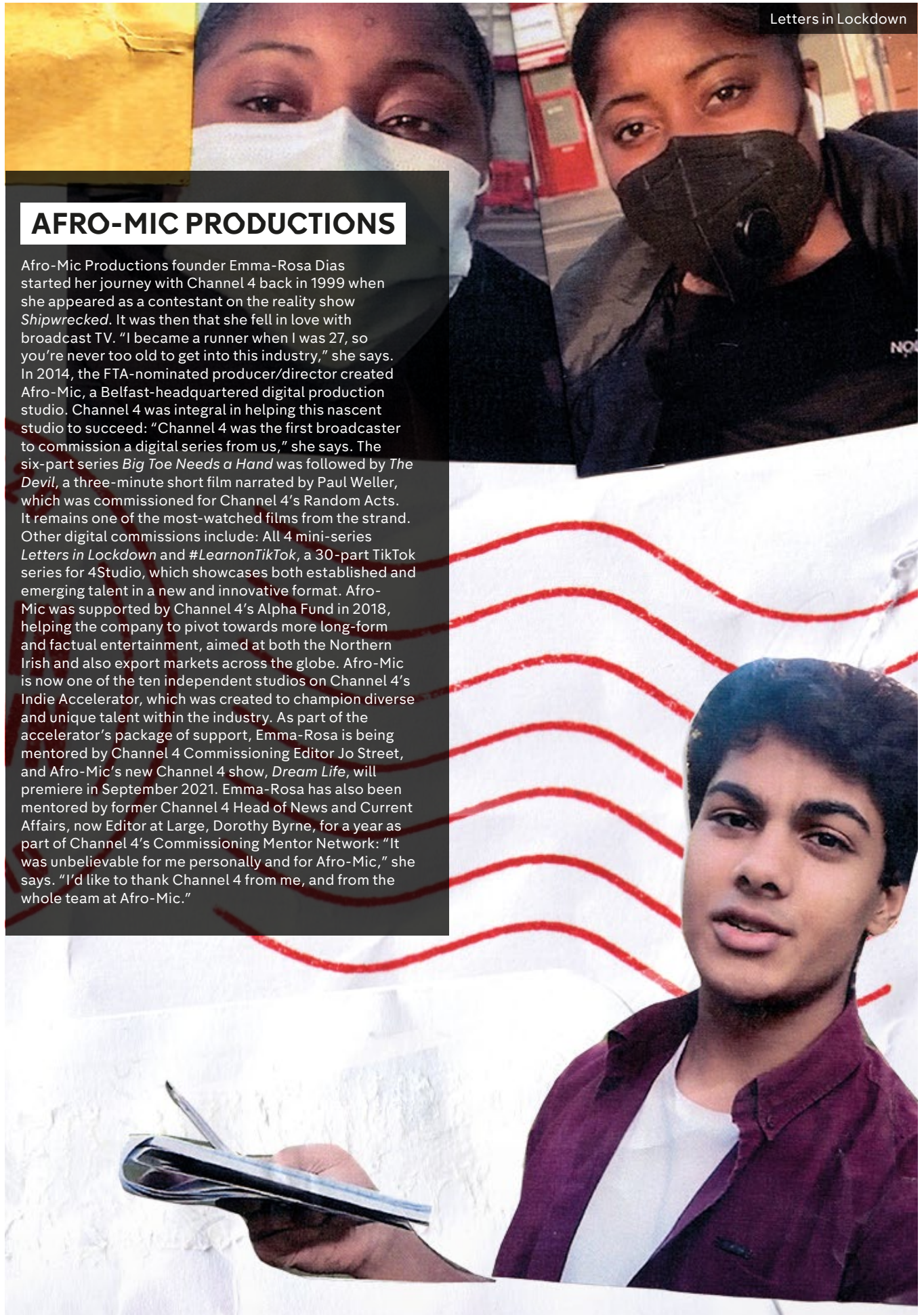
Figure 15: EY assumptions on how Channel 4's revenues and costs could change if Channel 4 is privatised and meets but does not exceed the minimum requirements of its public service obligations

Input	Channel 4 continues under its current ownership structure	Channel 4 is privatised as a publisher-broadcaster with its current public service obligations
Revenues	<ul style="list-style-type: none"> As per Channel 4's three-year financial plan, revenues consist of TV advertising and sponsorship, digital revenues, and other commercial revenue over the forecasted period 	<ul style="list-style-type: none"> Channel 4 receives the same revenues as under its current ownership structure, as a rational investor would look to maintain Channel 4's current revenue projections In our analysis, we have assumed that a privatised Channel 4's revenues would not increase due to the reduction in investment in content
Staff costs	<ul style="list-style-type: none"> Staff costs remain in line with Channel 4's three-year plan over the forecasted period Channel 4 maintains its staff presence in the Nations and Regions 	<ul style="list-style-type: none"> Commercial incentives lead Channel 4 to cut its investment in training and development programmes Fewer roles are based in the Nations and Regions, as Channel 4 refocuses its activities in London to rationalise costs from operating multiple regional offices
Acquisition costs	<ul style="list-style-type: none"> Content acquisition costs remain in line with Channel 4's three-year plan over the forecasted period 	<ul style="list-style-type: none"> Content acquisition costs remain in line with Channel 4's three-year plan However, due to a fall in commissioning costs (see below), acquisitions now represent a higher proportion of total content costs, as a privatised Channel 4 focuses on acquiring cheaper content that has already proven to be popular internationally
Commissioning costs	<ul style="list-style-type: none"> Commissioning costs remain in line with Channel 4's three-year plan over the forecasted period Content is commissioned from external production companies, with 50% of commissioning spend in the Nations and Regions, in line with Channel 4's voluntary commitment 	<ul style="list-style-type: none"> The new private owner of Channel 4 reduces its commissioning costs as a percentage of total revenue to the same proportion of comparable revenues as ITV Channel 4 reduces its expenditure with external production companies based in the Nations and Regions to 35% of its total commissioning spend (in line with its current quota)
Film costs	<ul style="list-style-type: none"> Film costs remain in line with Channel 4's three-year plan over the forecasted period 	<ul style="list-style-type: none"> Film costs decrease as the new owners look to decrease costs to improve profitability
Operating margin	<ul style="list-style-type: none"> The operating margin remains in line with the current three-year plan at 4% per year over the forecasted period 	<ul style="list-style-type: none"> The operating margin is increased to 15%, offering an investor a higher rate of return than Channel 4's current ownership structure as a not-for-profit entity This operating margin is below ITV's adjusted EBITDA margin of 20.6% in the year ended 31 December 2020³⁹. This lower operating margin reflects that the privatised Channel 4 is still a publisher-broadcaster, in comparison to ITV, which makes and distributes its own programmes

³⁹ ITV annual report (2020) https://www.itvplc.com/~/_media/Files/1/ITV-PLC/documents/reports-and-results/annual-report-2020.pdf

AFRO-MIC PRODUCTIONS

Afro-Mic Productions founder Emma-Rosa Dias started her journey with Channel 4 back in 1999 when she appeared as a contestant on the reality show *Shipwrecked*. It was then that she fell in love with broadcast TV. "I became a runner when I was 27, so you're never too old to get into this industry," she says. In 2014, the FTA-nominated producer/director created Afro-Mic, a Belfast-headquartered digital production studio. Channel 4 was integral in helping this nascent studio to succeed: "Channel 4 was the first broadcaster to commission a digital series from us," she says. The six-part series *Big Toe Needs a Hand* was followed by *The Devil*, a three-minute short film narrated by Paul Weller, which was commissioned for Channel 4's Random Acts. It remains one of the most-watched films from the strand. Other digital commissions include: All 4 mini-series *Letters in Lockdown* and *#LearnonTikTok*, a 30-part TikTok series for 4Studio, which showcases both established and emerging talent in a new and innovative format. Afro-Mic was supported by Channel 4's Alpha Fund in 2018, helping the company to pivot towards more long-form and factual entertainment, aimed at both the Northern Irish and also export markets across the globe. Afro-Mic is now one of the ten independent studios on Channel 4's Indie Accelerator, which was created to champion diverse and unique talent within the industry. As part of the accelerator's package of support, Emma-Rosa is being mentored by Channel 4 Commissioning Editor Jo Street, and Afro-Mic's new Channel 4 show, *Dream Life*, will premiere in September 2021. Emma-Rosa has also been mentored by former Channel 4 Head of News and Current Affairs, now Editor at Large, Dorothy Byrne, for a year as part of Channel 4's Commissioning Mentor Network: "It was unbelievable for me personally and for Afro-Mic," she says. "I'd like to thank Channel 4 from me, and from the whole team at Afro-Mic."



Question 5

Should the Government remove the publisher-broadcaster restriction to increase Channel 4's ability to diversify its commercial revenue streams? Please provide supporting evidence.

We believe that removing the publisher-broadcaster restriction is unnecessary for Channel 4's long-term growth – our performance to date demonstrates that we are able to evolve and generate new revenue streams without this change. Independent economic analysis finds that removing publisher-broadcaster status would harm the creative sector and lead to job losses, especially amongst smaller firms.

Channel 4 was set up as a publisher-broadcaster in order to provide a stimulus for the independent sector and inspire creative competition for ideas. The story of Channel 4 has therefore always been inextricably interlinked with that of the independent sector. As noted above, research from EY found that 90% of Channel 4's impact is in its supply chain, including supporting 10,000 jobs across the UK. We work with significantly more indies than other commercial broadcasters – latest publicly available data found that Channel 4 worked with 161 independent production companies across its portfolio, ITV (which is around three times the size of Channel 4) worked with 86 and Channel 5 worked with 111. In addition, Channel 4 worked with a further 113 suppliers including non-qualifying independent producers, film and digital production companies.

Channel 4 can continue to thrive whilst maintaining publisher-broadcaster status

While the sector has clearly benefited from Channel 4's status as a publisher-broadcaster, we believe this model has advantages for Channel 4, creatively and commercially.

Operating without an in-house production facility enables us to maintain low fixed costs as we don't need to employ in-house production staff. This ensures we are a lean, agile business that can quickly adapt to changes in the market – as demonstrated by our ability to withstand the challenges of the pandemic. It also means our commissioning teams are able to select the best ideas from the market, without having to favour in-house production teams.

As we set out in our evolved Future4 strategy, we are confident we can continue to thrive as a publisher broadcaster under public ownership. Key to this vision is innovating with new rights arrangements that enable Channel 4's international growth and diversification of revenue streams without jeopardising the fortunes of the independent sector.

This builds on the current ways we have sought to innovate with the independent sector – including our 2019 terms of trade deal and the more recently announced global formats fund whereby Channel 4 will retain 50% of international rights in exchange for companies receiving dedicated schedule and marketing support.

Our Indie Growth Fund provides access to finance to emerging companies (particularly regional and diverse companies), whilst also generating new revenues for Channel 4. Launched in 2014, this fund comprises equity stakes in small and emerging production companies, particularly those based outside of London and BAME-owned companies. Channel 4's investment provides the companies with access to funding to help them to grow and develop their businesses. Since it launched, the Indie Growth Fund has generated commercial returns for Channel 4 by investing in and helping to grow early-stage production companies across the UK – with successful exits including True North, Whisper Films and Barcroft Media.

We believe these initiatives have the potential to grow further, as they address key challenges outlined by the Government in their Plan for Growth, such as access to finance and regional growth, whilst also providing revenue upsides for Channel 4. We would welcome further conversations with the Government on how to enhance models such as these, which are 'win win' for both the production sector and Channel 4.

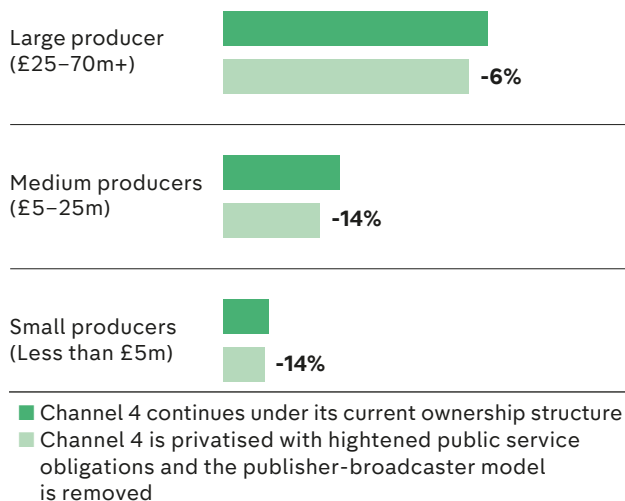
In contrast, we are concerned that removing publisher-broadcaster status results in a straightforward value transfer from the production community to Channel 4, with EY analysis concluding that under a scenario where Channel 4's publisher-broadcaster status is removed, Channel 4's contribution to GVA generated in its supply chain could decrease by £2.1 billion (-29%) and its contribution to jobs in its supply chain each year could decrease by 2,434 (-26%) compared to no change of ownership for Channel 4.

Question 5 continued

EY's analysis also suggests that the impact of ending the publisher-broadcaster model could be highest for small and medium sized producers.

Figure 16: Indicative impact of removing Channel 4's publisher-broadcaster model on revenues for UK external producers from primary commissions, by producer size in terms of turnover

TV-related revenues decline vs. scenario where Channel 4 continues under its current ownership structure (£m)



Source: Pact Television Census 2020, EY analysis.

Removing 'publisher-broadcaster' status could undermine the success of the UK production sector

In its assessment of the impact of removing 'publisher-broadcaster' status, it is important that the Government take a wider policy view than just the implications for Channel 4's own commercial flexibility – given the specific rationale of this status as an intervention to support wider industrial growth across the creative industries.

Indeed, in its PSM Review, Ofcom identified the creation of Channel 4 as a publisher-broadcaster as "the most significant"⁴⁰ public policy intervention in helping to develop the UK's production sector – a sector which the Chancellor rightly identified as "the envy of the world".⁴¹

Pact, the association that represents television producers, has also said that Channel 4's status as a publisher-broadcaster has been critical to the success of the UK production sector. "Channel 4 plays a critical role in the UK's broadcasting ecology as a publisher-broadcaster which has invested in hundreds of independent production companies over the nearly 40 years of its existence, enabling and improving access, skills, international activity and diversity. The channel is ...a catalyst for generations of entrepreneurs".⁴²

The consultation document underplays Channel 4's importance to the independent sector – while primary commissioning spend may account for 15% of sector revenue, this does not take into account the secondary value of our programmes, which producers sell around the world. In new research, Pact have estimated that Channel 4 provided £940 million of value to the independent production sector in 2019 – through commissions, secondary sales of Channel 4 programmes, and through its contribution to the 'creative economy'.⁴³

The sector now enjoys investment outside the PSB ecology, and Channel 4 welcomes the positive contribution to the British creative economy that newer players such as Netflix, Amazon and Sky have made in recent years. This has created new content, new jobs and has helped drive the UK creative industries to be one of the fastest growing sectors of the British economy.

However, this is not guaranteed investment – and could disappear if economic conditions become more favourable in other countries. More broadly, organisations whose primary purpose is profit are more likely to focus their commissioning on certain areas and a smaller number of larger companies to maximise returns on investment – Channel 4's public purpose means it has made a different set of choices.

For example, investment from the SVoDs is highly concentrated in London and the South East – it is the public service broadcasters like Channel 4 that are bucking this trend and seeking to spread aspiration and opportunity in the creative industries across the UK. Ofcom found that "Guaranteed investment from PSM providers in the production sector has delivered significant economic benefits, particularly across the UK's nations and regions ... Channel 4's move of around 250 of its workforce to Leeds has been a catalyst for a cluster of TV, film and creative organisations in the surrounding area and is estimated to boost the local economy by £1 billion."⁴⁴

40 <https://www.smallscreenbigdebate.co.uk/statement>

41 <https://www.bfi.org.uk/news/productions-enabled-film-tv-production-restart-scheme>

42 <https://www.pact.co.uk/latest-updates/news/detail.html?id=pact-statement-on-government-review-of-channel-4-ownership>

43 <https://www.broadcastnow.co.uk/channel-4/c4-sale-could-cost-indies-37bn-in-a-decade/5163092.article>

44 <https://www.smallscreenbigdebate.co.uk/statement>

Question 5 continued

Channel 4 also plays a unique role particularly in commissioning and developing smaller indies. Pact data shows that 29% of Channel 4's programming spend is with companies with turnovers below £10 million, versus 16% for ITV⁴⁵. David Olusoga, co-founder of Bristol-based production company, Uplands Television, has described how *"Channel 4 was key to the launch of our company and has been key to its survival"*⁴⁶. Channel 4 works with dozens of new production companies every year, and we have launched dedicated initiatives such as the Emerging Indie Fund and the Indie Growth Fund to support and grow small indies in a strategic way. Our Emerging Indie Fund has been specifically designed to help small, new or emerging indies outside of London break through key stages of growth, providing slate development funding, mentoring and advice. Channel 4 is also working to address the relatively low levels of BAME-led indies in the UK, with a new industry leading commitment to track and report our content spend with these independent producers and to double the number we commission from by 2023. To support us in achieving this we launched our new Indie Accelerator whereby commissioning teams have identified ten BAME-led indies from across the UK to champion and nurture.

The combination of Channel 4's publisher-broadcaster role and the culture and incentives that flow from its public ownership enables it to provide this kind of strategic support for the sector – which no other broadcaster does. Channel 4's activity here is comparable to the role that parts of the Government play in funding innovation that is too risky to be solely commercially funded. We note the Government's commitment to innovation generally and encourage the Government to assess the likely impact on hundreds of smaller innovative firms of a change of publisher-broadcaster status.

We understand from the testimony of John McVay (CEO of Pact) to the Lords Committee, that research commissioned for Pact has concluded that if a new owner of Channel 4 pursued a strategy of moving productions in-house and took fewer creative risks, this could cost the independent production sector up to £3.7 billion within ten years. Pact concludes⁴⁷ that the full impact would be even greater – as a weakened independent production sector would have a significant knock-on impact on the UK's wider audiovisual ecosystem over time.

⁴⁵ Oliver and Ohlbaum, Pact Census August 2020.

⁴⁶ <https://www.theguardian.com/commentisfree/2021/jul/25/i-owe-margaret-thatcher-a-debt-of-thanks-for-creating-channel-4>

⁴⁷ <https://www.broadcastnow.co.uk/channel-4/c4-sale-could-cost-indies-37bn-in-a-decade/5163092.article>

CHWAREL

"We would not be here, making programmes in this part of Wales, without Channel 4." Award-winning director and producer Sioned Wyn created her Criccieth, North Wales, television and radio production company Chwarel in 2001. Over the past two decades, she has created hit programmes including *The Horse Hoarder* and *The Great House Giveaway*. "Channel 4's Nations and Regions policy meant they would see people like me, and hear our crazy ideas, Sioned says. "No other broadcaster in the UK does this." Chwarel is now supported by Channel 4's Emerging Indie Fund, which helps promising indies outside of London grow and thrive. *The Great House Giveaway* has been a runaway success, becoming Channel 4's best new 4pm launch, and Chwarel is currently working on two new series of the programme. Channel 4 continued to support the Welsh indie throughout lockdown; *The Great House Giveaway* was edited remotely last year all around the country. Sioned says of the show's success: "Four years ago I came up with an idea for a property format, we took it into Channel 4, and we just won a BAFTA." This is the first time a daytime TV show has picked up the prestigious award. Sioned says: "None of this would have happened without Channel 4 and their excellent commissioning team."



Question 6

With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on:

- overall audience experience?
- the Channel 4 Television Corporation itself?
- investment in the independent production sector?
- investment in the independent film sector?
- the TV advertising market?
- investment in the creative industries sector more widely?
- competition between Channel 4 and other PSB and non-PSB channels?
- the regions and nations of the UK?

a. overall audience experience?

Channel 4 is valued by audiences as providing something unique and distinctive. Viewers consistently recognise Channel 4 as the best PSB for tackling issues others wouldn't (Channel 4 scores 38% vs. 8% average for other PSBs), being a home for alternate voices (34% vs. 8%), showing different cultures and opinions (31% vs. 11%) and showing the viewpoints of minority groups (30% vs. 9%)⁴⁸. This is a result of our ability to reach underserved audiences with challenging content.

The Government's consultation states that "*choice is no longer a problem*" because of the proliferation of video on demand services and therefore "*the rationale for Channel 4's creation no longer reflects the broadcasting landscape.*" Channel 4 disagrees with this conclusion.

It is demonstrably true that there has been an increase in services providing access to high quality content and that these services provide additional investment, choice and competitive tension which improves the market overall. However, it is also true that these services play a fundamentally different role to Channel 4 and the other public service broadcasters.

These services produce content for an international audience, with as broad an appeal as possible so it can appeal to viewers in as many markets as possible. Channel 4 does the opposite. Channel 4 produces hyper local content tailored specifically for and designed to reflect the lives and experiences of British viewers. Whilst the content offered by multinational streaming services offers viewers additional choice, it does not serve to replace the role that Channel 4 or any of the other PSBs play.

These services are also not free for viewers to access. In large part these are subscription-based services, which require both a monthly fee to access and access to a reliable broadband connection at additional cost. Channel 4 and the other free-to-air broadcasters are therefore particularly important for the 44% (12.5 million) of UK households who don't subscribe to any SVoD service.

It is unclear whether the Government will require a private owner of Channel 4 to maintain its free-to-air linear channels and for how long, especially considering the Government's perception that advertising is not a viable long-term business model.

Under public ownership, with a remit to serve British audiences, Channel 4 produces free, local content, relevant to the lives and experiences of the British people. As outlined elsewhere in this response Channel 4 believes that a new owner of Channel 4 could take a significantly different approach to delivering its remit and public service obligations, even if attempts to retain elements of it are enshrined in a new licence.

The Government has argued that a private owner would want to retain the distinctiveness of Channel 4's brand. However, as noted by EY, a privately-owned Channel 4, stripped of its publisher-broadcaster status, is still likely to commission less UK originated content, take fewer risks and cater to more global audiences with more generic programming. This would mean that shows with guaranteed large audiences would continue to be made, but ground-breaking new formats such as *The Circle* and *First Dates*, which have subsequently been sold to territories around the world, may potentially never be commissioned in the first place.

Channel 4 therefore believes that a privatised Channel 4 would likely result in a significant and irreversible reduction in choice for viewers which could not and would not be filled by the proliferation of streaming services.

b. the Channel 4 Television Corporation itself?

As set out, we are concerned that moving Channel 4 into private ownership is likely to fundamentally alter the incentives of the organisation and this will have inevitable knock-on effects on how Channel 4 delivers its remit.

Under private ownership our fiduciary duty will be to maximise profits and return dividends to shareholders. Under public ownership, instead of diverting profits to shareholders, Channel 4 reinvests all of its profits back into programming and into the delivery of our public service remit and obligations.

⁴⁸ <https://annualreport.channel4.com/>

Question 6 continued

Under private ownership Channel 4 would be more likely to take a minimalist approach to interpreting our remit and obligations and attempt to deliver it at the lowest cost possible.

Far from being central to our existence, under a private ownership it is likely that Channel 4 would seek to minimise or remove obligations which are costly and/or loss making.

c. investment in the independent production sector?

As set out in our answer to Question 5, moving Channel 4 into private ownership would have a significant impact on investment in the independent sector. EY conclude that under any scenario “privatisation of Channel 4 under any model could have material negative impacts for the independent production sector”⁴⁹, due to the likelihood of a private owner reducing overall content investment, concentrating investment in London, reducing spend on training and skills programmes and increasing in-house production.

We note the significant concerns held by the independent production sector on the Government’s proposals – including 100+ companies signing up to the Broadcast campaign against privatisation⁵⁰, and Pact, the trade association for independent producers, saying that the proposals will be highly damaging for the sector⁵¹.

d. investment in the independent film sector?

Film4 is internationally renowned for being a leading innovator and investor in independent British film – and plays a crucial role in showcasing British talent and films on the global stage. Film4 films have collectively won 37 Academy Awards and 84 BAFTAs, plus many more international awards. Over the past few years this has included *The Favourite* (winner of Academy Award for Best Actress), *Three Billboards Outside Ebbing, Missouri* (winner of Academy Award for Best Actress and Best Supporting Actor) and *The Father* (winner of Academy Award for Best Actor and Best Screenplay). Early Oscar-winners included *A Room with a View*, *The Crying Game*, *Howard’s End*, *The Madness of King George*, *Elizabeth* and *Topsy Turvy*.

Channel 4’s investment in film via Film4 is one of the three key pillars of independent film financing and production in the UK alongside BBC Films and the BFI. Its annual budget is significantly higher than the BBC’s (£11 million) and similar to the BFI, which is the recipient of a dedicated lottery grant (£26 million). As Channel 4 receives no public funding it is the only pillar of this investment which does not come from the public purse and is therefore not subject to the pressures of cuts in public funding.

Just as Channel 4 does with the wider production sector, Film4 plays a catalytic role in the British film industry – attracting investment and nurturing generations of film-makers. In just over five years since adopting its current business strategy, Film4’s investment of just over £100 million has generated around £450 million of total investment in UK films and filmmakers.

In a world dominated by superhero franchises, reboots and sequels Film4 invests in original, distinctive content and in developing new talent. Channel 4’s remit and ownership structure means it can invest this money to support smaller independent films which may otherwise struggle to get made because they are not obviously commercially attractive. Film4 can continue to back talent over a number of different projects, even if those early projects don’t see immediate commercial return. Our ability to take these kinds of risks is explicitly due to Channel 4 having no obligation to return profits to shareholders, and is what has enabled Film4 to have such significant success both in terms of awards (which reflect cultural impact) and at the box office.

Film4 develops future generations of UK film talent, a service crucial to ensuring the long-term sustainability of the UK film ecosystem. Enabling talent to cut its teeth on smaller, independent films is essential to developing the next generation of breakout commercial film talent. Danny Boyle, Steve McQueen, Stephen Frears, Sarah Gavron, Asif Kapadia, Andrea Arnold and Mike Leigh are among filmmakers supported by Film4 early in their careers. Hits like *Trainspotting*, *Slumdog Millionaire*, *12 Years a Slave* and *The Favourite* have helped propel British actors like Ewan McGregor, Chiwetel Ejiofor, Dev Patel and Olivia Colman to international stardom. And we gave early breaks to some of the UK’s most successful film producers – such as Tim Bevan, Andrew MacDonald and Allon Reich.

Film4 also plays an important role in training and skills, whether that’s through the 4 Playwrights Scheme which provides bursaries for new theatre writers; work with the Young Film Foundation in Scotland; or through funding and partnerships with the NFTS to support the next generation of film makers.

Film4 has a particular role to play in development – spending several million on its development slate each year. This equates to a slate approximately 120–140 projects deep, comprising a mix of sizes, genres and budgets: from big scale projects with marquee directors attached to first and second features from newer talent, and from book options Film4 will look to attach filmmakers to, through to informal treatment commissions from emerging playwrights.

This slate feeds the 10–12 feature film co-productions Film4 greenlights annually, and is a vital resource for producers to grow and refine their projects before deciding how to finance them for production. As an example of how Film4 benefits the broader UK independent film ecosystem, some projects from Film4’s development slate have recently been greenlit by streamers after Film4 have supported the projects through development to the point where they could attract other investment. *Encounter* (directed by Michael Pearce, produced by Raw for Amazon), *I Came By* (Babak Anvari, Two and Two Pictures for Netflix), and *The Beautiful Game* (Thea Sharrock, Blueprint for Netflix) are all projects incubated on Film4’s development slate, recently greenlit by streamers, on which Film4 will retain a creative involvement and support the filmmakers, whilst retaining a UK TV and digital broadcast window.

49 EY, Assessing the impact of a change of ownership of Channel 4, 2021 https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf

50 <https://www.broadcastnow.co.uk/not4sale>

51 <https://www.pact.co.uk/latest-updates/news/detail.html?id=pact-statement-on-government-review-of-channel-4-ownership>

STEVE MCQUEEN

Film4 supported Steve McQueen from an early stage in his career, backing his first two feature length projects, *Hunger* and *Shame*. Whilst critically acclaimed, neither film performed particularly strongly at the box office. While this would have led a privately-owned backer to question further investment Film4 continued to back Steve for his third feature length film, *12 Years a Slave*, which went on to win three Oscars, including Best Picture and propelled Steve to be one of the most sought after directors in the world.



Film4 has a legacy of creating space for British filmmakers to tell stories that matter. Without them I wouldn't have been given the opportunity to tell mine. Its body of work is a testament to what happens when artistic integrity is placed above drive for financial returns. The privatising of Channel 4 would put the UK's future as a place where meaningful work is done in great jeopardy."

Steve McQueen



THE FAVOURITE

The Favourite (2018), a film about the relationship between Queen Anne and Sarah Churchill, Duchess of Marlborough, was Film4's third collaboration with the director, Yorgos Lanthimos, following *The Lobster* (2015) and *The Killing of a Sacred Deer* (2017). *The Favourite* was co-produced by Film4, alongside Fox Searchlight and independent Irish production company Element Pictures, with funding split between Film4, Fox Searchlight and Waypoint entertainment. It was filmed almost exclusively in Hertfordshire.

The Favourite was released in 39 territories across the world – including countries across Europe, Latin America and Asia Pacific, as well as the USA – and grossed \$96 million worldwide against a budget of \$15million. It was nominated for ten Academy Awards, including Best Picture and Best Director, and tied as the most nominated film of that year. It won one Academy Award for Best Actress (Olivia Colman).



ELEMENT PICTURES

Element Pictures is the Dublin (and latterly London) based production company, best known for 2018's Oscar and BAFTA-winning *The Favourite* and one of 2020's most iconic TV shows, *Normal People*.

After Film4 backed Element's first feature film, Lenny Abrahamson's *Garage* in 2007, it took another seven years for the two companies to collaborate again. But, in 2014, they embarked on a partnership that produced nine films in five years, including a series of collaborations with Abrahamson and Yorgos Lanthimos, which cemented Element's burgeoning reputation as a company whose trademark was prestige films from visionary directors from around the world that could make a mark on the global stage.

Abrahamson's *Room* earned Element their first Oscar in 2016, sandwiched between *Frank* (2014) and *The Little Stranger* (2018) from the same director. Lanthimos's English language debut *The Lobster* was Oscar nominated in 2017, and the partnership between Element, Film4 and Lanthimos also produced *The Killing of a Sacred Deer* and *The Favourite*, which jointly (with *Roma*) garnered the most Oscar nominations of any film in 2019, culminating in Olivia Colman's memorable raspberry blowing win.

Other collaborations between the two organisations in this period were Ken Loach's *Jimmy's Hall*, Sebastián Lelio's English language debut *Disobedience*, and Nick Rowland's debut feature *Calm With Horses*.



Question 6 continued

Feature film is a notoriously risky business and one that is hard to make guaranteed commercial returns in. Given this, is it unclear that a privatised Channel 4 with an owner driven by commercial optimisation, would sustain Channel 4's current commitment to feature film at all. If Channel 4 is sold to a private owner, there is significant risk that a new owner could either choose to reduce investment in Film4 entirely (we note that no other UK commercial broadcaster has a feature film arm), or, if safeguards around budget are introduced, that it adapts Film4's approach to focus more on projects that are more certain to deliver a financial return, with a reduced investment in development, new talent and underrepresented voices. Ultimately this could mean that the independent British film industry would be significantly weakened and young British talent would lose an essential route to reaching the global stage.

See below for talent supported by Film4.

Steve McQueen: In 2008, Film4 co-produced Black British director Steve McQueen's debut feature film, *Hunger*, which told the story of the 1981 Irish hunger strike and IRA figurehead, Bobby Sands. Since 2008, Film4 has collaborated with Steve McQueen on an additional four feature films, including *12 Years a Slave* (2013), which won three Academy Awards for Best Picture, Best Supporting Actress (Lupita Nyong'o) and Best Adapted Screenplay (John Ridley).

Andrea Arnold: In 2003, Film4 developed and funded Andrea Arnold's short film *Wasp*, which went on to win the Oscar for Best Short Film. Film4 subsequently worked with Arnold in 2011 when she directed *Wuthering Heights*, which won Best Cinematography at the Venice Film Festival. Most recently, Film4 supported Arnold's *American Honey*, which won the Jury Prize at the Cannes Film Festival in 2016.

Martin McDonagh: Film4 has backed all of writer-director Martin McDonagh's screen work to date. These collaborations include: his Oscar winning short film *Six Shooter* (2006); his Oscar nominated and BAFTA winning debut film *In Bruges* (2008); BAFTA nominated *Seven Psychopaths* (2013); and Oscar and BAFTA winner *Three Billboards Outside Ebbing, Missouri* (2017).

Daniel Kaluuya: Early in his career, Daniel Kaluuya appeared in, and wrote for, Channel 4's *Skins*, a drama series about teenagers in Bristol. Kaluuya has gone on to win Academy Award Nominations for his roles in *Get Out* and *Judas and the Black Messiah* – the youngest black actor to receive two acting nominations. He has also appeared in *Black Panther* and Steve McQueen's Film4-backed *Widows*. Film4 has recently funded Kaluuya's first short film as a writer, *Two Single Beds*, which was selected for the BFI London Film Festival 2020.

Bukky Bakray: In her first ever acting performance, Bukky starred in *Rocks*, a highly acclaimed slice-of-life drama in 2020 about a multicultural group of East London school girls. Bakray was discovered after director Sarah Gavron auditioned 1,300 students in a search for new talent. Bakray has subsequently been nominated for Best Actress and Rising Star at the 2021 BAFTAs, with *Rocks* as a whole securing seven BAFTA nominations at the time of writing and winning five awards at the British Independent Film Awards.



If I could make movies with Film4 from here till the cows come home, that would be my preference. I cannot speak more highly of them – **Film4 are creative, local and have brilliant taste.**"

Bart Layton, Director, American Animals

e. the TV advertising market?

A change in ownership for Channel 4 would likely have a significant negative impact on the UK's advertising market. The loss of choice outlined in our answer to 6 a) are likely to result in a detrimental imbalance in the following four areas:

- The ability to reach light viewers and young and diverse audiences
- Market innovation
- Diversity and inclusion
- A healthy and competitive marketplace

The ability to reach light viewers and young and diverse audiences

Channel 4 has a unique heritage of communicating with audiences who generically watch very little television (light viewers) and young and hard to reach audiences. Channel 4 Sales reaches six million light viewers on a monthly basis, indexing 33% higher than the total commercial TV market. In terms of reaching young audiences, Channel 4 has the strongest profile of 16-34-year-olds, indexing 27% higher than the total commercial TV market. 80% of 16-34-year-olds and 16-24-year-olds are registered on our on demand service All 4.

With a remit to appeal to the tastes and interests of a culturally diverse society, Channel 4 also has a strong relationship with diverse audiences. Channel 4 has a monthly reach of 64% against any ethnic minority and an average weekly reach of 55% of Black Caribbean audiences and 47% against Indian audiences.

These audience groups are of high value to the advertising community.

Question 6 continued

The importance and value of these audiences is reflected by the UK's voice for British Advertising ISBA:

"ISBA opposes the privatisation of Channel 4. Channel 4's unique remit provides advertisers with highly valued, younger and diverse audiences at scale and in quality environments, at a time when these audiences are becoming increasingly hard to reach through linear TV."

Market innovation

Channel 4 sales have been a consistent driver in market-leading innovation which in turn has lifted the performance of its competitors.

Channel 4 was the first broadcaster in the UK to ask its viewers to register when opting to view its on-demand services. As a result, Channel 4 was the first broadcaster to offer data targeting products in the UK, leading the market in demographic and interest-based targeting. The channel recently launched a number of advanced data driven targeting options for advertisers that had never been previously available on a broadcaster platforms in the UK, including the multi-award-winning BRANDM4TCH, which enables brands to target known customers or to target new customers on All 4 in a way that is personal and GDPR compliant, in a cookie-less environment.

Channel 4 set the bar on Data Privacy prior to the introduction of GDPR. Our 'Viewer Promise' – which explains the clear exchange of value between viewers and Channel 4 and gives viewers a clear choice in if and how their data is used – has become the role model that other businesses follow.

Channel 4 leads Europe in programmatic capabilities. In 2015, Channel 4 was the first European broadcaster to offer advertisers a digital marketplace to buy advertising programmatically, and in August 2021, All 4 Private Marketplace (PMP) was announced, making Channel 4 the first UK broadcaster to make its vast inventory available through automated real-time bidding – a method that enables ad space to be auctioned in milliseconds to the highest bidding advertiser bidding for a target audience.

Among UK public service broadcasters, Channel 4 is uniquely committed to an ad tech agnostic approach, providing advertisers with choice for how they transact against All 4 inventory.

Channel 4 leads the industry conversation in Broadcaster Video (BVOD) Insight, helping PSB broadcasters to prove the effectiveness of BVOD advertising vs other forms of video advertising e.g. Facebook and YouTube.

Channel 4 has initiated broadcaster collaboration for the markets' benefit. The most recent collaboration is C-Flight, which brings more transparency to cross-platform measurement.

In 2020, Channel 4 launched 4Studio, a major new editorial and content division within the organisation providing advertisers with advertising-funded content opportunities specifically designed for social media audiences. 4Studio has become the number one provider of branded content in the UK across social platforms.

Channel 4 set up C4 Ventures in 2015 to invest in early stage businesses across the UK, using its media inventory for equity stakes. The fund has made over 30 investments since launch including The Meatless Farm in Yorkshire, CrowdCube in Exeter and B-North in Manchester, and represents significant value on C4's balance sheet. In addition, there have already been successful exits for investments in Pinterest, Readly and Drover.

The 4Sales 'Greenhouse Fund' is a £3 million initiative to support small and medium sized businesses that have never advertised on TV before through match-funded commercial airtime across Channel 4's portfolio. The fund exists to help those brands who have never been able to take advantage of the ROI offered by TV advertising due to the initial up-front investment required.

Channel 4's tendency to be a first mover, to take risks and to innovate is a direct result of our public service remit and our model of public ownership which incentivises and enables us to do so.

Diversity and inclusion

Aligned to the remit, Channel 4 also uses its position in the advertising industry to drive change, encouraging advertisers to support and champion under-represented audiences and is unique in the broadcast environment in its commitment to do so.

Channel 4's 'Diversity in Advertising Award' challenges the advertising industry to address the inauthentic and sometimes clichéd portrayals of different under-represented groups within UK advertising. It provides a £1 million media budget awarded to the winning entry and Channel 4 offers to match fund (up to a £250,000 limit each) any unsuccessful finalists if they agree to move ahead with their proposed campaigns. The overall ambition of the award is to get more representative advertising campaigns on air and encourage greater inclusive thinking within the creative process behind the campaigns.

Since its inauguration in 2016, the award has covered Disability, Hidden Disability, Representation of Women, LBGTQ+, Black Asian Minority Ethnic Communities and Age Representation. To date, over £5 million of advertising has been donated by the channel to support these initiatives. Through the award Channel 4 has pushed the advertising industry forward in increasing its diversity and representation in a way no other broadcaster has.

Beyond the award, Channel 4 has sought to ensure diverse audiences are represented through advertising, including through our 'Stand Against Racism' campaign, in which Channel 4 brought together supermarket brands for a special break to show solidarity after Sainsbury's Christmas ad was targeted for racial abuse.

Most recently our 'Black to Front' initiative amplified the conversation around representation and diversity in the industry and Channel 4 a curated a day of programming featuring Black talent in front of and behind the camera. Advertisers were challenged to integrate into the programming content, create new advertising featuring Black talent, or run existing inclusive creative throughout the schedule.

FIRECREST FILMS

Glasgow based indie Firecrest Films has been supported by Channel 4 over several years, with a number of different Channel 4 initiatives sustaining the company's growth and development. Firecrest was set up in 2008 to make investigative short films for Channel 4 News. Channel 4 first commissioned Firecrest in 2012 to make *Secrets of Poundland*, the first of more than a dozen *Dispatches* films including some of the strand's highest rating episodes, such as *Secrets of Cadbury*, *Inside Facebook: Secrets of a Social Network* and *Low Pay Britain*, which won a Scottish BAFTA. This helped to cement the company – and Scotland – as key Channel 4 News and Current Affairs suppliers. In 2020, Firecrest was the department's biggest supplier with 11 hours of output delivered in the pandemic.

Channel 4 has been central to the company's growth and diversification. With funding from the Alpha Fund in 2015, consumer series *Supershoppers* was developed and commissioned. It ran for seven seasons, plus several spin-offs, winning both BAFTA Scotland and RTS Scotland awards for best Feature and Factual Entertainment programme and providing a stable and predictable income stream which enabled further growth. More Alpha funding allowed the company to diversify into observational documentary, with Channel 4 series like the award-winning *Lifers Behind Bars*.

Channel 4's activities also included part-funding four journalism trainees from 2012 to 2015, and four production trainees from 2017 to 2021. In 2017, Firecrest became Channel 4's first Indie Growth Fund investment outside England, allowing the company to expand its creative team and diversify further. "We knew the investment would put us on the map, especially at a time when broadcasters were looking to work with indies outside of London," says founder Nicole Kleeman. "Suddenly, we had this very special badge that said 'Approved by Channel 4' and that was game-changing." Following the investment, Firecrest's turnover trebled year-on-year to £3 million in 2018, growing again to £4 million in the following year. In 2018, Firecrest was named the fastest growing independent production company outside London. Renowned for its high-quality output, the company won more awards last year than any other Scottish indie and was shortlisted at the 2020 Edinburgh TV Festival Awards as one of the best production companies in the UK. Following record turnover and profit in 2020, Firecrest now has six network series in production for BBC One, BBC Two and Channel 4.



Question 6 continued

Channel 4's commitment to delivering its remit, not just through its programming, but through all of its activities is a result of our ability to prioritise public value over profit. Channel 4 believes it is unlikely that a private owner of Channel 4 would seek to continue these activities.

A healthy and competitive marketplace

A competitive commercial TV marketplace promotes innovation and self-regulates pricing.

New ownership of Channel 4 could result in a significant reduction in competition in TV advertising, which would need to be considered in detail by the CMA. If, for instance, there were consolidation of advertising sales houses following privatisation (there are three in the market currently – Channel 4, Sky, ITV), this would significantly reduce choice for advertisers and would be likely to lead to an increase in the price for TV advertising. A consolidation of TV sales houses could in turn accelerate the migration of advertiser budgets away from television and into online platforms, such as Facebook, Google and Snap.

The Government should also consider the potential impact on other broadcasters, who rely on external sales houses for representation. In the event of a reduction in the number of sales houses, there would be an inevitable restrictive effect on these broadcasters in terms of their sales representation from three options to two.

External analysts have highlighted the importance of these issues. For instance, Enders Analysis cite that a merged sales house between ITV and Channel 4 would “control over 70% of TV advertising revenues. Even if the sales houses were kept separate, advertisers are likely to be vehemently opposed to ITV acquiring Channel 4”.⁵² They also suggest that “While an acquisition by Sky may be more palatable to advertisers, they are likely to argue that a reduction of major sales points from three to two would be detrimental to competition”. Such consolidation would significantly reduce choice for advertisers and would be likely to lead to an increase in the price for TV advertising.

f. investment in the creative industries sector more widely?

Investment in skills and supporting new talent

As a public service broadcaster with a remit to nurture talent, Channel 4 has a unique role in supporting emerging talent across television, film and digital media. We do this across Channel 4 – through dedicated talent strands, support for SMEs throughout the country, and specific skills and training initiatives. Our initiatives are targeted at people at every stage on the career ladder and we are committed to supporting talent both on and off screen, from apprentices at the start of their career to training the next generation of data scientists, as well as production trainees, budding writers, actors and directors.

At the heart of our talent strategy on and off screen is social mobility. Supporting social mobility and encouraging new entrants into the wider media industries is crucial to our role as Britain's youngest public service broadcaster. We agree with the Prime Minister that “having the right skills and training is the route to better, well-paid jobs”⁵³. This is particularly important

as we help to rebalance the creative economy outside of London and across the UK's Nations and Regions through our ambitious 4 All the UK plan. Our public ownership has allowed us to focus our efforts in this way.

To turbocharge our efforts to find, nurture and develop talent in the Nations and Regions we launched a training and development initiative called 4Skills.

The programme brings together and builds upon Channel 4's external talent schemes and initiatives to increase our overall impact. It aims to attract people from diverse backgrounds into broadcasting and production, address skills gaps and help those who are already in the industry to progress their careers.

4Skills includes an outreach programme to introduce school kids and college students to careers in the broadcast industry, plus apprenticeship schemes for people from diverse backgrounds – with the first cohorts starting in our Leeds and Manchester bases in early 2021.

We are also working with the likes of ScreenSkills, NFTS, TRC and PACT to offer bespoke training, and running virtual industry events from Bristol, Glasgow and Leeds to connect local indies and commissioners.



Channel 4 is by far the most supportive and brave [broadcaster].

They really understand the importance of giving a voice to minority communities – and not making a disability film feel tokenistic. I've been given opportunities that I could only have imagined. Channel 4 not only gave me the opportunity to network with fellow producers, directors and production companies, but they also gave me the tools to navigate the very tough competitive industry that we work in.”

Camilla Arnold, Producer and Director, Flashing Lights

⁵² <https://www.endersanalysis.com/reports/channel-4-privatisation-here-we-go-again>

⁵³ <https://www.gov.uk/government/news/prime-minister-to-revolutionise-skills-and-training-opportunities>

Question 6 continued

Most recently we launched 'Content Creatives' – a scheme aimed at 18-24-year-olds with a Yorkshire postcode with a focus on recruiting young people from lower socioeconomic backgrounds. We have worked with Jobcentre Plus and DWP work coaches in the region to reach as diverse an audience as possible. It is a 12-week paid training plan which includes four weeks working with our 4Studio team in our Leeds HQ. 'Content Creatives' includes masterclasses in digital storytelling, production techniques, ideas generation, pitching skills and delivering to a creative brief.

From 2022, we will supercharge 4Skills so that its training and development initiatives help over 15,000 young people every year – an investment worth £5 million annually. This will include a new digital academy, with paid three-month training and work placements for young people from lower socioeconomic backgrounds, a new pan-UK schools engagement programme and a new on and off screen training programme for people with disabilities in advance of Paris 2024 Paralympic Games.

Channel 4 has set out further details of our investment in talent and skills in a 'Supporting new talent' booklet which is attached as an annex to this submission.



I have cerebral palsy, which could have held me back. Compared to other TV organisations, **Channel 4 goes over and above to try and bring diversity in and make the team look more like society as a whole.** I'm grateful that Channel 4 took a chance on me, and gave me the opportunity to broaden my experience. I'm so lucky that I get to do what I love every day."

**Alastair Meichan, Assistant Producer,
Open Mike Productions**

We do this work because, under our current model, each part of Channel 4 is continually thinking about how to maximise our wider contribution to the future of the industry. We believe we play a key role in demonstrating the opportunity the creative industries present for young people to aim for aspirational jobs, wherever they are.

Channel 4 believes it is highly unlikely that a privately-owned and profit motivated Channel 4 would be motivated to deliver the same level of investment and commitment to developing skills and supporting social mobility outside of London. Our commitment to these schemes is a direct result of our role as a public asset.

Similarly, a privately-owned Channel 4 would be far less likely to take risks with new on and off screen talent at the beginning of their careers, particularly where this doesn't deliver an immediate return, as outlined in our response to Question 6 d).

g. competition between Channel 4 and other PSB and non-PSB channels?

As set out throughout this response Channel 4 believes it is likely that a change in ownership would lead to reduced investment in UK originated content, commissioning of more generic content aimed at a broader audience, and fewer risks. This is in part because a sale of Channel 4 to a buyer with an existing presence in the UK market would mean that the new merged entity would face one fewer competitor for viewers. For all UK households, this is likely to be significant. For 44% (12.5m) of UK households who don't subscribe to any SVoD and 11.5m who rely on traditional free-to-air broadcast TV for their programming, it will be especially so. The merged entity will have to fight significantly less hard to maintain these viewers, meaning they will have less incentive to develop a range of high-quality programming.

As a privately owned Channel 4 would shift its focus away from maximising its public service impact, this could result in less public service competition for the BBC and the other PSBs. Channel 4's increased focus on commercial programming is also likely to force the other commercially funded PSBs to do the same at the expense of their own provision of public service content and result in an overall increase in purely commercially focussed programming.

This is likely to have negative knock-on effects in a number of genres, especially where there are already a limited number of buyers. Paralympics sport is a particularly relevant example of this. As no other commercial broadcast bid for the 2012 Paralympics, despite it being a home event, it is likely that rights would revert to the BBC.

Question 6 continued

h. the regions and nations of the UK?

As set out in our answer to Question 3, we welcome the Government's recognition of Channel 4's investment in the Nations and Regions of the UK and that it will seek to maintain this even under a change in ownership. However, we strongly believe that Channel 4's public purpose and publisher-broadcaster model have been pivotal in driving this level of commitment and investment, going far beyond what is required in our remit, both in scale and in scope. While the Government has suggested potentially making the Leeds office a condition of sale in any transaction, it is difficult to see how the extent and breadth of Channel 4's investment across the UK could be protected under a model of private ownership. EY's analysis found that *"privatisation with an updated quota and new commitments could still reduce Channel 4's contribution to GVA in its supply chain in the Nations and Regions by 18%"*⁵⁴.

⁵⁴ EY, Assessing the impact of a change of ownership of Channel 4, 2021 https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf



**Channel Four
Television Corporation**