

Assessing the impact of a change of ownership of Channel 4

An economic, social and cultural impact
assessment of the impact of
privatisation

September 2021

Disclaimer

This report has been prepared by Ernst & Young LLP, a limited liability partnership registered in England and Wales with registered number OC300001, in accordance with an engagement agreement for professional services with Channel 4. Ernst & Young LLP's obligations to Channel 4 are governed by that engagement agreement. This disclaimer applies to all other parties (including Channel 4's affiliates and advisors).

This report has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Refer to your advisors for specific advice.

Ernst & Young LLP accepts no responsibility to update this report in light of subsequent events or for any other reason.

This report does not constitute a recommendation or endorsement by Ernst & Young LLP to invest in, sell, or otherwise use any of the markets or companies referred to in it.

To the fullest extent permitted by law, Ernst & Young LLP and its members, employees and agents do not accept or assume any responsibility or liability in respect of this report, or decisions based on it, to any reader of the report. Should such readers choose to rely on this report, then they do so at their own risk.

Ernst & Young LLP reserves all rights in the report.

Contents

1.	Executive Summary	1
2.	Channel 4’s current contribution, the context of privatisation and the scope of our work	10
3.	The rationale for privatisation	15
4.	Impact on Channel 4’s economic contribution	21
5.	Impact on the production sector including in the Nations and Regions	31
6.	Impact of privatisation on Channel 4’s wider social and cultural contribution	47
Annex A	Summary of regulation for the commercial public service broadcasters	58
Annex B	Methodology for economic contribution analysis	60
Annex C	Assumptions for economic contribution analysis	62
Annex D	Comparing Channel 4’s current ownership model against privatised scenarios	66
Annex E	Economic multipliers	68

1. Executive Summary

- ▶ Channel 4 has a unique remit and role in the UK media sector. It is required by its remit to demonstrate innovation and creativity in its programmes, exhibit a distinctive character, and to create content that appeals to younger audiences and a culturally diverse society.^{1, 2}
- ▶ Although it is publicly owned, Channel 4 receives no public funding and generates its revenues commercially. As a not-for-profit organisation, Channel 4's profits are reinvested in serving audiences.
- ▶ Channel 4 is a 'publisher-broadcaster', which means it is prohibited from making its own programmes and must instead commission content from a range of external production companies, including producers from the Nations and Regions of the UK. Channel 4's publisher-broadcaster model is intended to ensure that Channel 4 acts as a stimulus to the UK external production sector.
- ▶ Channel 4 supports the regional creative economy, in part through its headquarters in Leeds, Creative Hubs in Glasgow and Bristol, and office in Manchester, and in part by commissioning content from producers based outside London. Historically, Channel 4 has exceeded its regulatory quota to commission 35% of its content from outside London, and in 2018 it made a voluntary commitment to commission a minimum of 50% of its content from the Nations and Regions by 2023.³
- ▶ The UK's media landscape has seen substantial change in recent years. New market entrants and technologies have transformed the content that audiences watch and the way they watch it. While Channel 4 has remained sustainable through these changes, the Department for Digital, Culture, Media and Sport (DCMS) believes market developments could introduce threats to Channel 4's future financial viability.
- ▶ DCMS is considering whether a change of ownership of Channel 4, combined with changes to Channel 4's public service obligations, could better ensure Channel 4's future sustainability. In its consultation, DCMS identifies a range of potential benefits associated with a change of ownership of Channel 4, including the ability for Channel 4 to: diversify its revenue sources; improve its access to capital and increase investment; take advantage of strategic partnerships, and expand into international markets. The consultation also notes reducing taxpayer risk as a more general benefit of privatisation.⁴
- ▶ In the past, Channel 4 has demonstrated that it can react quickly and effectively to market developments within its current ownership model. It has responded to challenges including the introduction of competition from commercial broadcasters in multichannel and digital homes, the financial crisis, the growth of streaming services and COVID-19 while remaining sustainable. Looking forward, Channel 4 expects to remain sustainable under its current ownership model. It increased its digital revenue by an average of 24% per year between 2015 and 2019 and has a strategy to further diversify its revenues to support its long-term future sustainability under its current model, without any change of ownership required.
- ▶ Channel 4's establishment as a publicly-owned, not-for-profit broadcaster is intended to provide it with the commercial freedom to take risks in the type of content it commissions, who it works with and how it invests. This is because – while Channel 4 must ensure it remains financially sustainable – it does not have to justify decisions with

¹ Channel 4 licence. https://www.ofcom.org.uk/_data/assets/pdf_file/0018/40266/channel-4-attachment-variation.pdf

² Section 198A of the Communications Act 2003. <https://www.legislation.gov.uk/ukpga/2003/21/section/198A>

³ In terms of both number of hours of programming commissioned and percentage of spend. Channel 4, (2018). *4 All the UK*. <https://www.channel4.com/corporate/4-all-uk-working-across-uk>

⁴ DCMS (July 2021). Consultation on a change of ownership of Channel 4 Television Corporation. <https://www.gov.uk/government/consultations/consultation-on-a-change-of-ownership-of-channel-4-television-corporation>

a view to generating a sufficient commercial return for its owners. Changing Channel 4's ownership structure would change its incentives. Privatising Channel 4 would suggest a greater emphasis on delivering value to private shareholders.

- ▶ Channel 4 has commissioned EY to assess the potential implications of privatisation. We have considered the potential impact of privatisation of Channel 4 in three areas:
 - ▶ **Impact on Channel 4's economic contribution** in terms of its contribution to economic output (expressed as gross value added or GVA) and employment. We consider both Channel 4's direct contribution to GVA (comprising its operating surplus and compensation of employees) and its contribution to GVA through its supply chain (indirect and induced impacts). We also consider Channel 4's direct impact on jobs (through the staff and freelancers directly employed by Channel 4) as well as the jobs Channel 4 supports through its supply chain. We have taken a forward-looking approach to estimating Channel 4's contribution to GVA and jobs over a ten-year period.
 - ▶ **Impact on the production sector:** We assess Channel 4's current role supporting the external production sector, the way this role could change following privatisation, and the potential implications for the production sector and producers of different sizes.
 - ▶ **Impact on Channel 4's wider social and cultural contribution:** We consider the impact of privatisation on Channel 4's wider social and cultural contribution to the UK and its Nations and Regions, reviewing Channel 4's contribution to audiences, reflecting UK culture and talent development.

Impact of privatisation on Channel 4's economic contribution

- ▶ There are a broad range of possible implications of privatisation, which depend on a number of factors including the nature of Channel 4's new private owner, its commercial model following privatisation and its regulatory requirements. Given this, we have sought to analyse different broad outcomes for privatisation in terms of their direction and magnitude rather than seeking to define specific scenarios or 'expected outcomes'.
- ▶ The new owner of a privatised Channel 4 could – entirely rationally and in keeping with its incentives – take a more commercial approach to the delivery of Channel 4's public service obligations. As such, we consider the possibility that the new owner of Channel 4 may have an incentive to meet the minimum requirements of its public service obligations in order to drive shareholder returns.
- ▶ Figure 1.1 summarises the different outcomes of privatisation we have considered in our analysis.

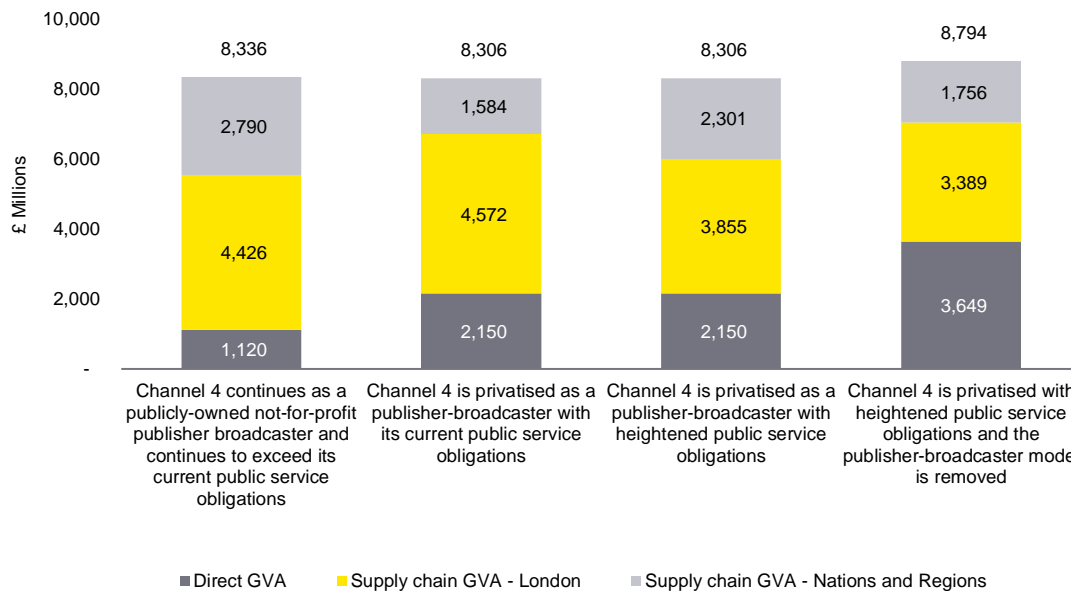
Figure 1-1: Summary of the different outcomes of privatisation considered in our analysis

Channel 4 continues as a publicly-owned not-for-profit publisher-broadcaster and continues to exceed its current public service obligations	<ul style="list-style-type: none"> ▶ Assumptions are in line with Channel 4's three-year plan. ▶ Spend on new commissions in the Nations and Regions is 50% of content spend, in line with Channel 4's voluntary commitment.
Channel 4 is privatised as a publisher-broadcaster with its current public service obligations	<ul style="list-style-type: none"> ▶ Spend on new commissions as a proportion of Channel 4's revenues decreases to the same proportion of comparable revenues as ITV, a comparable commercial public service broadcaster. ▶ Spend on new commissions in the Nations and Regions falls to meet Channel 4's quota of 35% of content spend. ▶ Some staff and associated staff costs move back to London.
Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations	<ul style="list-style-type: none"> ▶ Spend on new commissions as a proportion of Channel 4's revenues decreases to the same proportion of comparable revenues as ITV. ▶ Spend on new commissions in the Nations and Regions is 50% of content spend, in line with Channel 4's voluntary commitment.

	<ul style="list-style-type: none"> ▶ Staff remain in the Nations and Regions in line with Channel 4’s three-year plan.
<p>Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed</p>	<ul style="list-style-type: none"> ▶ Spend on new commissions as a proportion of Channel 4’s revenues decreases to the same proportion of comparable revenues as ITV. ▶ Spend on new commissions in the Nations and Regions is 50% of content spend, in line with Channel 4’s voluntary commitment. ▶ 66% of content is commissioned from Channel 4’s new in-house production unit, in line with ITV Studios’ share of original content on ITV’s main channel.⁵ ▶ Channel 4 generates new revenues from the production and distribution of content.

- ▶ Our analysis suggests that privatisation could see more of the value generated by Channel 4 internalised within the organisation, while the value generated across Channel 4’s supply chain could decrease. As such, privatisation could represent a significant change to Channel 4’s current operating model, which currently ensures that Channel 4 supports the wider creative sector through its expenditure with companies in its supply chain, including the external production sector.
- ▶ Our analysis also suggests that the wider creative economy in the Nations and Regions could be disproportionately affected by privatisation, particularly if Channel 4’s regulatory quota for content made in the Nations and Regions is not increased to reflect its current levels of spend in the Nations and Regions.
- ▶ Figures 1.2 and 1.3 summarise the results of our analysis of these stylised outcomes of privatisation.

Figure 1-2: Summary of our analysis of the present value⁶ of GVA generated by Channel 4 over a ten-year period

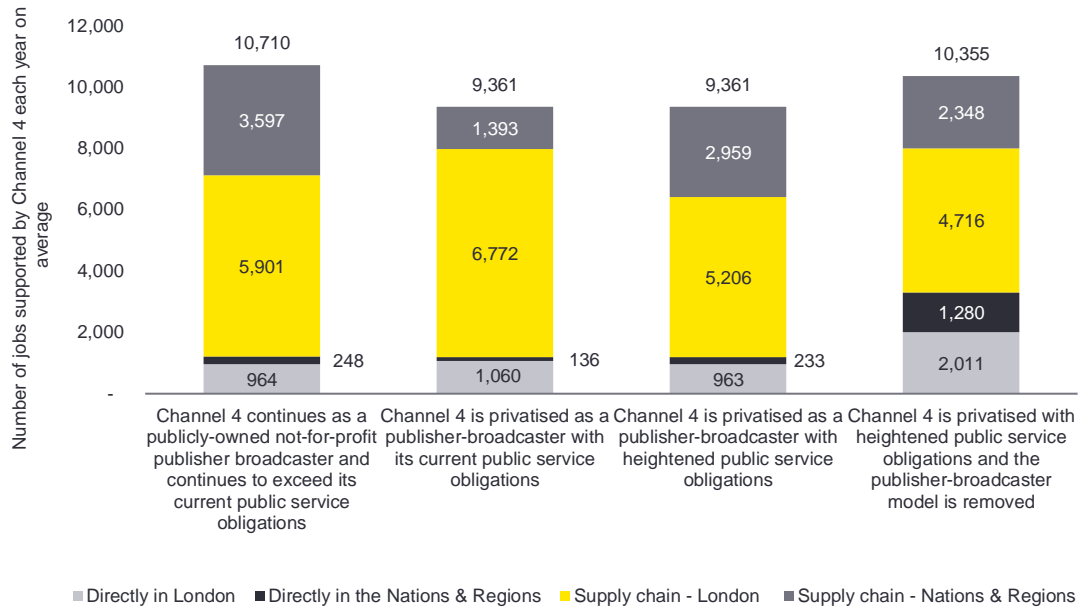


Source: EY analysis of financial data provided by Channel 4. Figures represent the present value of Channel 4’s contribution to GVA over a ten-year period.

⁵ Five year average of ITV Studios UK’s share of original content on ITV main channel between 2016 and 2020. Shares taken from ITV annual reports over this period.

⁶ A social discount rate has been applied to estimate the present value of Channel 4’s future contribution to GVA.

Figure 1-3: Summary of our analysis of the average number of jobs supported by Channel 4 each year⁷



Source: EY analysis of headcount data provided by Channel 4. Jobs are average jobs supported each year across the ten-year period.

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

- ▶ Firstly, we have sought to understand possible outcomes for Channel 4’s economic contribution if it is privatised with its current public service obligations and remains a publisher-broadcaster. Our analysis suggests that Channel 4 could be more profitable after privatisation compared to a scenario where Channel 4 is not privatised. We estimate that Channel 4’s **direct contribution to GVA would increase by 92% (£1bn)** over a ten-year period due to its increased profitability.
- ▶ However, **this increase in Channel 4’s direct GVA results materially from a transfer from Channel 4’s supply chain.** If the new private owner of Channel 4 reduces its spend on new commissions as a proportion of revenues in line with ITV (a decline of 22% in Channel 4’s commissioning spend compared to current levels) to reduce costs, we estimate that **Channel 4’s supply chain contribution to GVA could decrease by 15% (£1bn)** compared to a scenario where Channel 4 is not privatised. Channel 4’s public service obligations do not specify a certain level of spend on new commissions.
- ▶ Our analysis also suggests that privatising Channel 4 with its current remit and public service obligations, specifically with its quota for 35% of productions to be commissioned from outside London, could have a negative impact on the number of jobs supported by Channel 4. We estimate that a fall in spend on new commissions could lead to a **decline of 14% in the number of jobs supported by Channel 4** across the UK on average each year compared to a scenario where Channel 4 is not privatised (a reduction of 1,300 in the number of jobs supported on average each year), with the majority of this impact felt in Channel 4’s supply chain.
- ▶ Our analysis further suggests that the wider creative sector in the Nations and Regions could be disproportionately affected if Channel 4 is privatised with its current public service obligations, as the new owner could choose to shift commissioning spend to London’s more concentrated production market. If the new private owner of Channel 4 reduces spend in the Nations and Regions to the level of Channel 4’s quota (35%), we

⁷ We refer to Full Time Equivalent employees (FTEs) supported as jobs supported throughout this report.

estimate that **Channel 4's contribution to GVA through its supply chain⁸ in the Nations and Regions could reduce by 43% (£1.2bn)** over a ten-year period. Similarly, we estimate that **jobs supported by Channel 4 in the Nations and Regions each year (both directly and in its supply chain) would reduce by 60% (2,300 fewer jobs supported each year)** compared to a scenario where Channel 4 is not privatised.

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

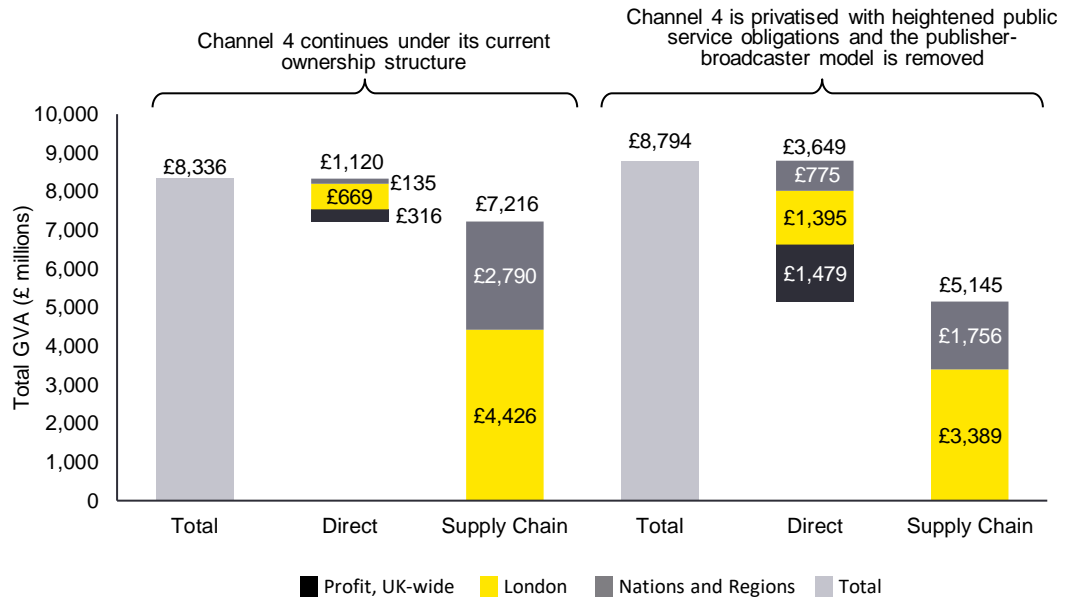
- ▶ Secondly, we have considered how the economic contribution of Channel 4 could change if DCMS were to heighten its public service obligations following privatisation. We assume that Channel 4's quota for production in the Nations and Regions is updated to require Channel 4's new owner to continue to commit 50% of its commissioning budget to producers based in the Nations and Regions, in line with Channel 4's current voluntary commitment, and that the new owner makes a commitment to keeping Channel 4's existing offices in the Nations and Regions.
- ▶ Our analysis suggests that imposing these heightened obligations on the new owner would mitigate some – but not all – of the adverse impact of privatisation on Channel 4's economic contribution to the wider creative economy in the Nations and Regions. If the new owner of Channel 4 reduced its total spend on commissions as a proportion of revenues in line with that of ITV, but committed to 50% of this lower total spend being in the Nations and Regions, **we estimate that Channel 4's contribution to GVA through its supply chain in the Nations and Regions would decrease by 18% (£500m), and the number of jobs supported by Channel 4 in its supply chain each year in the Nations and Regions could decrease by 18% (600 roles)** compared to a scenario where Channel 4 is not privatised.

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

- ▶ Thirdly, DCMS is seeking evidence on the impact of weakening or removing the publisher-broadcaster model and permitting Channel 4 to make its own programmes, in the way that other broadcasters do. Figure 1.4 summarises our analysis of the estimated difference between Channel 4's contribution to UK-wide GVA if Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed, compared to its current operating model.

⁸ When considering the GVA generated by Channel 4 in the Nations and Regions, we have estimated the impact in Channel 4's supply chain (indirect and induced effects). The profit component of direct GVA is deemed to be a UK-wide impact, as revenues generated by Channel 4 have not been allocated to different parts of the UK and the Nations and Regions.

Figure 1-4: Estimate of GVA generated over a ten-year period where Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed



- ▶ Our analysis suggests that removing the publisher-broadcaster model could generate a higher overall contribution to GVA: we estimate that Channel 4’s total GVA contribution could be 5% higher if it is privatised and the publisher-broadcaster model is removed, compared to Channel 4’s current ownership status and operating model. The increase in overall GVA is driven by an increase in Channel 4’s direct contribution to GVA due to its increased breadth of activities following the removal of the publisher-broadcaster model. Our analysis suggests that **Channel 4’s direct contribution to GVA over a ten-year period could increase by £2.5bn** if the publisher-broadcaster model were to be removed following privatisation compared to if Channel 4 remains a not-for-profit publisher-broadcaster (£3.6bn vs. £1.1bn).
- ▶ However, our analysis suggests that removing the publisher-broadcaster model could correspondingly reduce Channel 4’s contribution to the wider creative economy, as the new owner of Channel 4 could be incentivised to make more programmes itself to retain intellectual property rights and spend less with external producers. If 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,⁹ we estimate that the **present value of Channel 4’s supply chain contribution to GVA over a ten-year period could be 29% (£2.1bn) lower** compared to Channel 4’s current model (£5.1bn vs. £7.2bn). 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.
- ▶ 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 (£1.8bn vs. £2.8bn), due to a shift in commissioning spend towards in-house productions.

⁹ Five year average of ITV Studios UK’s share of original content on ITV main channel between 2016 and 2020. Shares taken from ITV annual reports over this period.

- ▶ Our analysis also suggests that the **number of jobs supported by Channel 4 in its supply chain each year could decline by 26%** if Channel 4 is privatised and the publisher-broadcaster model is removed, compared to Channel 4’s current model (7,100 jobs supported each year compared to 9,500 jobs supported each year).
- ▶ Many of the jobs previously supported by Channel 4 in its supply chain could move in house to work in Channel 4’s new production and distribution units, either as salaried staff or as freelancers. As such, the total number of jobs supported by Channel 4 (both directly and in its supply chain) may not decrease if it is privatised and the publisher-broadcaster model is removed. Moving jobs in-house to Channel 4 could offer new opportunities for individuals in the production sector to work at a broadcaster. However, concentrating more jobs in house at Channel 4 could have a detrimental impact on external production companies and on diversity of ideas and new talent.
- ▶ Our analysis illustrates the policy choice relating to Channel 4’s remit and model and, in particular, the impact of policy choices on **Channel 4’s role as a stimulus to the wider creative economy, particularly in the Nations and Regions.**

Impact of privatisation on the production sector

- ▶ Since its inception, Channel 4 – under its current model – has played an important role supporting the UK production sector, which has become an “internationally successful part of our creative economy and projects the UK positively across the globe”.¹⁰ It typically spends nearly £500m per year on originated content and, unlike many other broadcasters which make their own programmes, all of Channel 4’s content spend goes to external producers.
- ▶ Independent producers also retain full control and ownership of the secondary revenue generated through rights exploitation of content originally commissioned by Channel 4^{11,12}. Producer rights income from programmes originally commissioned by Channel 4 is estimated to be around £50-70m per year.¹³
- ▶ Channel 4 commissions play an important role in supporting the production sector outside London, with Channel 4 spending £189m on programmes from production companies based in the Nations and Regions in 2019.¹⁴ A large proportion of Channel 4’s commissioning spend is with small and medium-sized producers (47% compared to 31% for ITV)¹⁵ and its not-for-profit status allows it to take risks by working with a wide range of suppliers, including new companies. In 2020, Channel 4 commissioned content from 274 different producers, of which 37 were new suppliers.¹⁶
- ▶ Faced with a shift in incentives towards private shareholder value following privatisation, the new owner of Channel 4 may seek to reduce commercial risk by working with a smaller number of large producers which may have greater experience, breadth of connections and financial stability. An international private owner of Channel 4 could also choose to acquire more content from producers based overseas and spend less with UK producers.

¹⁰ Ofcom, (February 2021). *Small Screen: Big Debate – Public service broadcasters and the UK production sector.* https://www.ofcom.org.uk/_data/assets/pdf_file/0027/212679/call-for-evidence-psb-production-sector.pdf

¹¹ The Codes of Practice govern the principles that public service broadcasters apply when agreeing terms for commissioning independent producers. Under the Codes of Practice, independent producers making TV for public service broadcasters retain the secondary rights to their content and can generate additional revenue by exploiting these rights within the UK and internationally.

¹² Channel 4, (June 2019). *Channel 4 and Pact agree landmark Terms of Trade deal for new digital era.*

<https://www.channel4.com/press/news/channel-4-and-pact-agree-landmark-terms-trade-deal-new-digital-era>

¹³ Estimate provided by Channel 4.

¹⁴ £141m in 2020, reflecting a lower overall content budget due to the pandemic. Channel 4 Annual Report 2020.

https://annualreport.channel4.com/assets/pdf/Full_Channel4_AR20_ACC.pdf

¹⁵ Small and medium sized producers defined as producers with turnover of less than £25m. Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census.*

<https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbb6ea54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

¹⁶ Channel 4 Annual Report 2020. https://annualreport.channel4.com/assets/pdf/Full_Channel4_AR20_ACC.pdf

- ▶ Additionally, the new owner could choose to reduce spend on new commissions to reduce risk and overall content expenditure. We have carried out indicative analysis of the impact of removing the publisher-broadcaster model on production sector revenues from primary commissions. Given Channel 4's spending profile, our indicative analysis suggests that the negative impact on the external production sector of ending the publisher-broadcaster model may be highest for small- and medium-sized producers, resulting in a reduction in revenues from primary commissions for these producers of up to 16%.

Impact of privatisation on Channel 4's wider social and cultural contribution

- ▶ Channel 4's remit to act as an alternative voice in UK broadcasting and to take creative risks is intended to ensure that, in addition to its economic contribution, it also contributes socially and culturally to the UK and its Nations and Regions. Ofcom's most recent review of Channel 4's performance against its public service obligations, published in 2020, concluded that Channel 4 "largely met its media content duties between 2014-2018".¹⁷
- ▶ Following privatisation, a new owner may be less likely to take the same risks, as public service obligations would need to be balanced with the need to generate value for private shareholders. The new owner of Channel 4 could be incentivised to prioritise mainstream content that it expects to be commercially successful to reduce costs and increase profits. Given that many aspects of Channel 4's public service obligations are more qualitative, it could be difficult to express or 'codify' these in such a way that a new private owner continues to take risks when delivering its public service obligations.
- ▶ A loss of Channel 4's distinctiveness from other public service broadcasters could undermine its purpose to bring greater plurality of voices to the broadcasting ecosystem. This could mean that the audience segments that Channel 4 currently caters for, such as younger and ethnically diverse audiences, are no longer served as well by public service media, undermining the role of public service broadcasting in "securing types of programming which are important to society, creating shared national experiences and reflecting the UK back to itself in all its diversity."¹⁸
- ▶ Multinational commercial broadcasters have an incentive to create and distribute content aimed towards global audiences, as this approach is a more cost-effective way to fund content investment. 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 content¹⁹ (equivalent to 0.6% of the contribution of the public service broadcasters). Additionally, when multinationals invest in local UK content, it can result in a dilution of UK cultural references: media analysts found that when *Black Mirror* moved from Channel 4 to Netflix it saw a fall in references to British terms, expressions, reference points or idioms per hour of programming.²⁰ A private owner of Channel 4 could have an increased incentive to commission content that appeals to a more global audience to increase the appeal of the content and increase revenues, potentially undermining the role that public service broadcasters play in representing the UK to the rest of the world.

¹⁷ Ofcom, (Feb 2020). Channel 4 Corporation's performance in delivering its media content duties 2014-18. https://www.ofcom.org.uk/_data/assets/pdf_file/0030/192099/channel-4-review-2014-18.pdf

¹⁸ 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

¹⁹ 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

²⁰ Enders Analysis, (March 2021). Outsourcing culture: When British shows aren't 'British'. <https://www.endersanalysis.com/reports/outsourcing-culture-when-british-shows-arent-british>

- ▶ Finally, Channel 4 plays an important role as a talent incubator in the UK, providing underrepresented groups with the skills and opportunities to break into the broadcasting sector. Channel 4's investment in training has additional social and economic impacts, such as a more skilled and productive workforce in the wider creative sector. Operating as a not-for-profit organisation, Channel 4 can take risks on emerging talent, acting as a first 'big break' for new writers and talent. Nurturing talent from an early stage carries a level of risk that the new owner of Channel 4, faced with an incentive to generate returns for shareholders, may not have the appetite for. Additionally, many of the training and development initiatives supported by Channel 4 are not designed to benefit Channel 4 directly; instead, they play an important role supporting the wider creative sector, particularly external producers. As a result, the current extent of its investment may not be justified under private ownership.

Conclusion

- ▶ Our analysis suggests that privatisation could see more of the value generated by Channel 4 internalised within Channel 4 and reduce the value generated through its supply chain, including through spend with external producers, particularly if the publisher-broadcaster model is removed. Our analysis further suggests that privatisation could have adverse impacts for the wider creative economy, with a risk that the Nations and Regions is disproportionately affected.
- ▶ Additionally, the nature and location of the new owner of Channel 4 could lead to further reductions in the GVA it generates and the jobs it supports. For example, an international buyer could shift more spending outside the UK, reducing Channel 4's economic contribution to the UK and its Nations and Regions.
- ▶ While our analysis suggests that privatisation could increase the profitability of Channel 4, Channel 4 expects to remain sustainable and diversify its revenues under its current model and ownership structure. It has stated that its corporation revenue forecast is expected to exceed £1bn for the first time in 2021.
- ▶ Updating regulation and enforcing heightened public service obligations on the new private owner of Channel 4 would involve a significantly higher level of intervention for Channel 4 compared to the other commercial public service broadcasters (ITV and Channel 5), which are subject to a regulatory regime that is more light touch in comparison.²¹ Additionally, it could be difficult to codify some of the more qualitative aspects of Channel 4's remit, particularly in a rapidly evolving sector.

²¹ Ofcom, (July 2021). *Recommendations to Government on the future of public service media: Annex 8*. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0031/208768/annex-8-psb-regulatory-framework.pdf

2. Channel 4's current contribution, the context of privatisation and the scope of our work

2.1 Channel 4 acts as a “disruptive, innovative force” and provides benefits to audiences

Channel 4 occupies a unique position within the current public service media system. It operates as the only publicly-owned and commercially-funded public service broadcaster, meaning it does not receive any public funding. Channel 4 operates on a not-for-profit basis, investing its profits in serving audiences.

Channel 4 is a ‘publisher-broadcaster’, which means it is prohibited from making its own programmes and must instead commission content from a range of external production companies, including producers from the Nations and Regions of the UK. Channel 4's commissioning spend accounted for 20% of independent production sector revenue from primary UK commissions in 2019, equivalent to 12% of total primary commissions revenue across the sector.²² Channel 4's publisher-broadcaster status ensures that Channel 4 acts as a stimulus to the UK external production sector by requiring all of Channel 4's commissioning spend to go to external producers.

To ensure public service media serves all audiences, Channel 4 is required by legislation to provide an alternative voice to the other UK public service broadcasters (the BBC, ITV and Channel 5). Since its inception, Channel 4 has been required to act as a “disruptive, innovative force in UK broadcasting”²³ that creates content that largely appeals to younger audiences and a culturally diverse society. Channel 4 must:

- ▶ Champion unheard voices by investing in content that is unlikely to be created by other broadcasters.
- ▶ Innovate and take bold creative risks by investing in riskier content than other PSBs.
- ▶ Inspire change in the way we lead our lives by stimulating debate and providing viewers with access to material that “inspires them to make changes to their lives”.
- ▶ To stand up for diversity across the UK by creating content that “appeals to the tastes and interests of a culturally diverse society”.²⁴

Channel 4 also has statutory media content duties to:

- ▶ Make a broad range of high-quality content that appeals to the tastes and interests of a culturally diverse society.
- ▶ Provide news and current affairs.
- ▶ Provide content which appeals to older children and young adults.
- ▶ Make, broadcast and distribute high-quality films, intended to be shown to UK audiences, and broadcast and distribute films (including third party films) that reflect cultural activity in the UK to audiences (a requirement that is satisfied by the activities of Film4).
- ▶ Support the development of people with creative talent.

²² Oliver & Ohlbaum for Pact, (August 2020). UK Television Production Survey: Financial Census. <https://static1.squarespace.com/static/5c9cbb42a568278dd5430feb/1/5fbbbee54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

²³ Channel 4's remit: <https://www.channel4.com/corporate/about-4/what-we-do/channel-4s-remit>.

²⁴ 198A of The Communications Act 2003. <https://www.legislation.gov.uk/ukpga/2003/21/section/198A>

- ▶ Promote alternative views and new perspectives.
- ▶ Promote measures intended to ensure that people are well-informed and motivated to participate in society.
- ▶ Support and stimulate well-informed debate on a wide range of issues, including by providing information and views from around the world and by challenging established views.²⁵

The remit is imposed on Channel 4 in part through quantified quotas, which align with the public policy objectives of public service broadcasting and are as follows:²⁶

- ▶ 208 hours of current affairs content must be broadcast each year, with 80 hours broadcast during peak time.²⁷
- ▶ 208 hours of national and international news content, which must all be broadcast during peak time.
- ▶ 56% of content must be an original²⁸ production, rising to 70% during peak time.
- ▶ 25% of qualifying hours must be commissioned from qualifying independent producers.²⁹
- ▶ 35% of qualifying network production must be made outside London (within the Nations and Regions).³⁰
- ▶ 9% of qualifying network production must be produced outside England.

Ofcom is responsible for assessing Channel 4's performance against its remit and conducts a review of Channel 4 every five years. Channel 4 has exceeded its quotas each year between 2013 and 2019.³¹

As part of its '4 All the UK' strategy announced in 2018, Channel 4 made a voluntary commitment to outperform its quotas for production in the Nations and Regions, committing to at least 50% of spend on content occurring in the Nations and Regions by 2023.³² Channel 4 is making progress on this commitment: spend for its main channel on commissions from the Nations and Regions was 47% in 2020³³ and Channel 4 expects to meet this target in 2021, two years ahead of plan. As well as supporting the regional creative economy through its spend with external producers based outside London, Channel 4's 4 All the UK strategy involves a shift in Channel 4's geographical bases throughout the UK. It has established a new national headquarters in Leeds and new Creative Hubs in Bristol and Glasgow, in addition to its office in Manchester, "representing the largest structural change in Channel 4's history".³⁴

²⁵ Ofcom, (July 2021). *Recommendations to Government on the future of public service media: Annex 8.*

https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0031/208768/annex-8-psb-regulatory-framework.pdf

²⁶ Ofcom, (2020). PBS Annual Compliance Report. <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/annual-report-2020>.

²⁷ Ofcom defines peak broadcasting Between 18:00 and 22:30.

²⁸ Defined by The Broadcasting (Original Productions) Order 2004 as commissioned with a view to its first showing on television in the UK being on that channel among other criteria.

²⁹ Qualifying independent producers are producers that do not share a significant common ownership stake with any UK broadcasters.

³⁰ Defined in The Communications Act 2003 as outside of the M25.

³¹ 2020 performance has not yet been published by Ofcom.

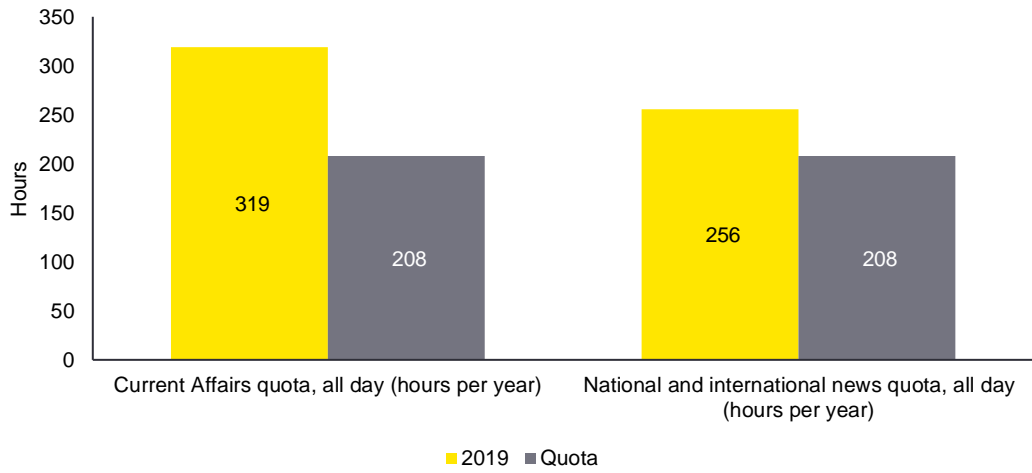
³² Channel 4, (June 2021). Channel 4 Annual Report 2020. https://annualreport.channel4.com/assets/pdf/Overview_Channel4_AR20_ACC.pdf

³³ Channel 4, (June 2021). Channel 4 Annual Report 2020.

https://annualreport.channel4.com/assets/pdf/Overview_Channel4_AR20_ACC.pdf

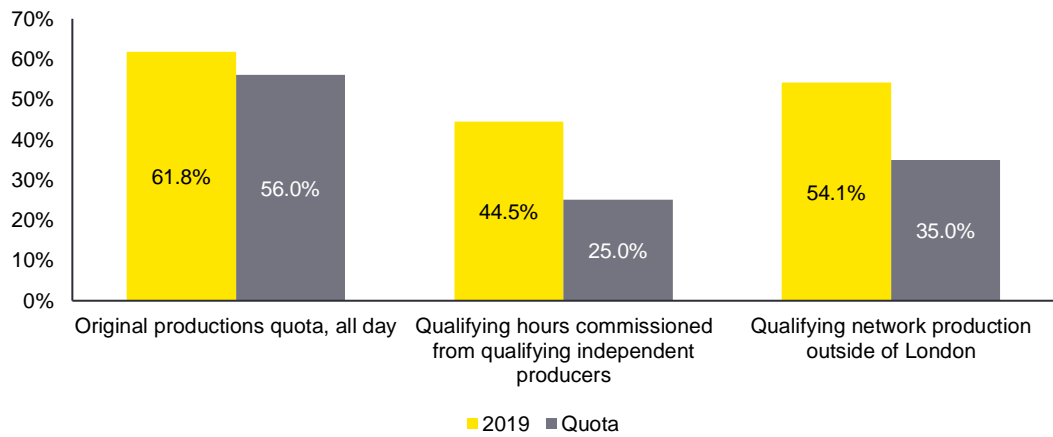
³⁴ 4 All the UK: Working across the UK

Figure 2-1: Channel 4's performance against news and current affairs quotas³⁵



Source: Ofcom, PSB annual compliance report

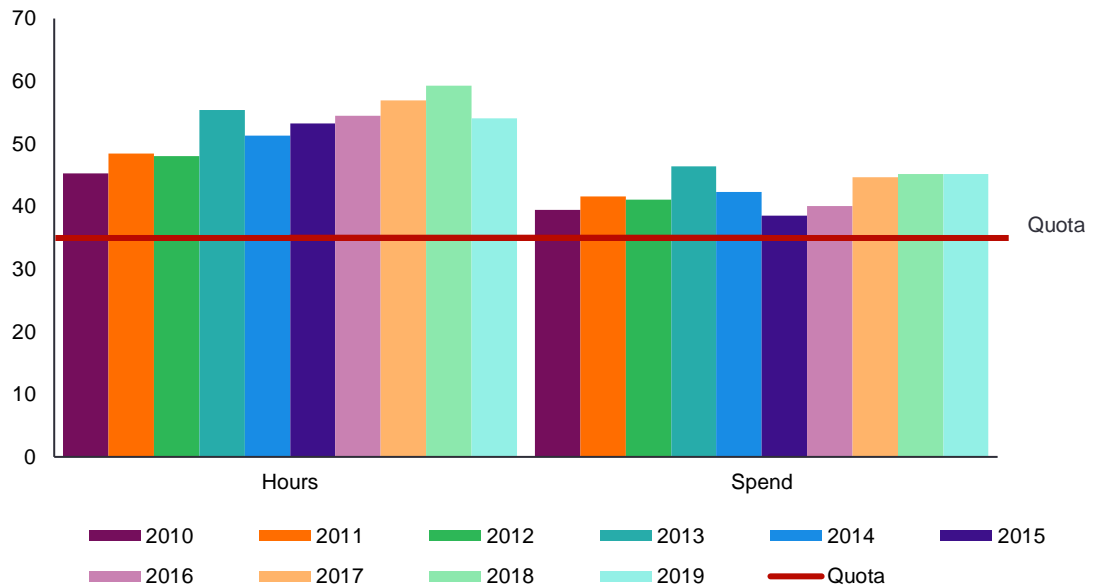
Figure 2-2: Channel 4's performance against original productions, qualifying independent producers and out of London production quotas³⁶



³⁵ Ofcom, (2020). PSB Annual Compliance Report. <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/annual-report-2020>

³⁶ Ofcom, (2020). PSB Annual Compliance Report. <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/annual-report-2020>

Figure 2-3: Channel 4's performance against Made outside London quotas, proportion of hours and spend (%)³⁷



Source: Ofcom PSB compliance report

Other aspects of Channel 4's remit are more qualitative and subjective: directives to “demonstrate innovation” or to “exhibit a distinctive character” are much more difficult to define. Ofcom makes judgements about Channel 4's performance against the qualitative aspects of its remit by assessing audience sentiment towards Channel 4, namely how it compares to other broadcasters according to criteria such as style of content. Ofcom's most recent review, published in 2020, concluded that Channel 4 “largely met its media content duties between 2014-2018”. Other conclusions that Ofcom reached include:

- ▶ The coverage Channel 4 gave to the UK's diversity continued to be a strength.
- ▶ Channel 4 continued to show a broad range of high-quality programmes, with audiences consistently rating the main channel, Channel 4, more highly than other public service broadcaster services in taking risks.
- ▶ Channel 4 acted to improve its provision aimed at older children and teenagers.³⁸

2.2 Channel 4's public service obligations are more onerous than those of the other commercial public service broadcasters

Compared to the other commercial public service broadcasters (ITV and Channel 5³⁹), Channel 4 has more extensive public service obligations and is subject to a higher level of regulatory oversight.

While, like Channel 4, ITV and Channel 5 are required to comply with quotas, the statutory remits for ITV and Channel 5 relate solely to: “the provision of a range of high quality and diverse programming”.⁴⁰ These remits compare to Channel 4's more extensive and

³⁷ Ofcom, 2020. *PSB Annual Compliance Report*. <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/annual-report-2020>

³⁸ Ofcom, (Feb 2020). Channel 4 Corporation's performance in delivering its media content duties 2014-18. https://www.ofcom.org.uk/data/assets/pdf_file/0030/192099/channel-4-review-2014-18.pdf

³⁹ The BBC is subject to extensive public service obligations and a high level of regulatory oversight in recognition of its licence funding and significant responsibilities to public service media.

⁴⁰ Ofcom, (July 2021). *Recommendations to Government on the future of public service media: Annex 8*. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0031/208768/annex-8-psb-regulatory-framework.pdf

subjective remit, as well as its extensive statutory media content duties, summarised in Section 2.1. Annex A sets out the public service obligations for the commercial public service broadcasters in more detail.

For policy objectives for Channel 4 to be met, it is necessary for Channel 4 to abide by the spirit of the remit, as well as meeting its quota requirements. Its status as a publicly-owned, not-for-profit broadcaster allows Channel 4 to take more risks and focus on less commercially-attractive content than other commercial broadcasters to fulfil its more extensive public service obligations.

2.3 DCMS is exploring a change in Channel 4's ownership

The UK's media landscape has seen substantial change in recent years. New market entrants and technologies have transformed the ways in which audiences consume their content. While Channel 4 has remained sustainable through these changes, the Department for Digital, Culture, Media and Sport (DCMS) believes market developments could threaten Channel 4's sustainability in the long-term:

- ▶ Increased competition from new entrants has resulted in a shift away from linear platforms.
- ▶ Growing production budgets have resulted in cost inflation.
- ▶ Limited access to capital could restrict Channel 4's ability to compete.

In this context, DCMS is consulting on whether a change of ownership of Channel 4 could support its ongoing sustainability.⁴¹ DCMS is seeking views on the privatisation of Channel 4, in addition to potential changes to its public service obligations.

2.4 EY has been commissioned to analyse the impact of a change in ownership

In this context, EY has been commissioned by Channel 4 to analyse the impact that privatisation could have on Channel 4's economic, social and cultural contribution to the UK and its Nations and Regions.

The remainder of this report is set out as follows:

- ▶ In Section 3, we consider the rationale for privatisation of Channel 4, assessing whether privatisation is required to meet DCMS's objectives for Channel 4 and to support its future sustainability.
- ▶ In Section 4, we estimate the potential impact of privatisation on Channel 4's contribution to economic output and employment by considering a number of different possible outcomes for privatisation.
- ▶ In Section 5, we consider the impact of privatisation on the production sector, assessing Channel 4's current role supporting the sector and the way this role could change following privatisation.
- ▶ In Section 6, we consider the impact of privatisation on Channel 4's wider social and cultural contribution to the UK and its Nations and Regions, reviewing Channel 4's contribution to audiences, representing the UK and talent development.

⁴¹ DCMS (July 2021). *Consultation on a change of ownership of Channel 4 Television Corporation*. [Consultation on a change of ownership of Channel 4 Television Corporation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/consultation-on-a-change-of-ownership-of-channel-4-television-corporation)

3. The rationale for privatisation

3.1 DCMS is considering whether a change of ownership could ensure Channel 4's future sustainability

The media industry has transformed in the decades since Channel 4 was first established, with significant changes driven by new market entrants, the development of new technologies and changes in viewing habits. Competition has increased and audiences can choose from a wide range of content providers, including public service broadcasters, commercial broadcasters, multinational streaming services and short-form video providers.

These changes in the media industry have caused disruption to the traditional business models of the commercial public service broadcasters, which historically relied predominantly on TV advertising as their primary revenue stream. TV advertising revenue in the UK has been gradually falling in recent years: it is estimated that television advertising revenues have fallen by 18% (£1bn) in real terms since 2015,⁴² with COVID-19 compounding the financial pressure on broadcasters.

In the context of a significantly changed broadcasting market, DCMS is considering whether a change of ownership of Channel 4, combined with changes to Channel 4's public service obligations, could better ensure Channel 4's future sustainability.⁴³ DCMS is consulting on a range of potential changes to Channel 4:

- ▶ A change of ownership of Channel 4, moving away from its current status as a publicly-owned, not-for-profit organisation.
- ▶ A change to Channel 4's remit, ensuring the remit "does not prohibit Channel 4's future sustainability".
- ▶ A change to Channel 4's status as a publisher-broadcaster, instead allowing Channel 4 to make its own programmes and generate additional revenue through exploiting the secondary rights to content it has produced.

In its consultation, DCMS identifies a range of potential benefits associated with a change of ownership of Channel 4:

- ▶ The ability for Channel 4 to diversify its revenue sources, reducing its current reliance on linear TV advertising and events-driven sponsorship.
- ▶ The ability for Channel 4 to invest more heavily in an agile manner to 'future-proof' its business model, including the ability to invest dynamically in new technology and programming.
- ▶ Improved and sustained access to capital to support strategic investment to compete with growing production and technology budgets across the broadcasting sector.
- ▶ The ability to take advantage of strategic partnerships and acquisition opportunities.
- ▶ The ability to expand into international markets and growth opportunities.⁴⁴

⁴² Ofcom, Media Nations (2020), https://www.ofcom.org.uk/data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf

⁴³ DCMS (July 2021). Consultation on a change of ownership of Channel 4 Television Corporation. <https://www.gov.uk/government/consultations/consultation-on-a-change-of-ownership-of-channel-4-television-corporation>

⁴⁴ DCMS (July 2021). Consultation on a change of ownership of Channel 4 Television Corporation. [Consultation on a change of ownership of Channel 4 Television Corporation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/consultation-on-a-change-of-ownership-of-channel-4-television-corporation)

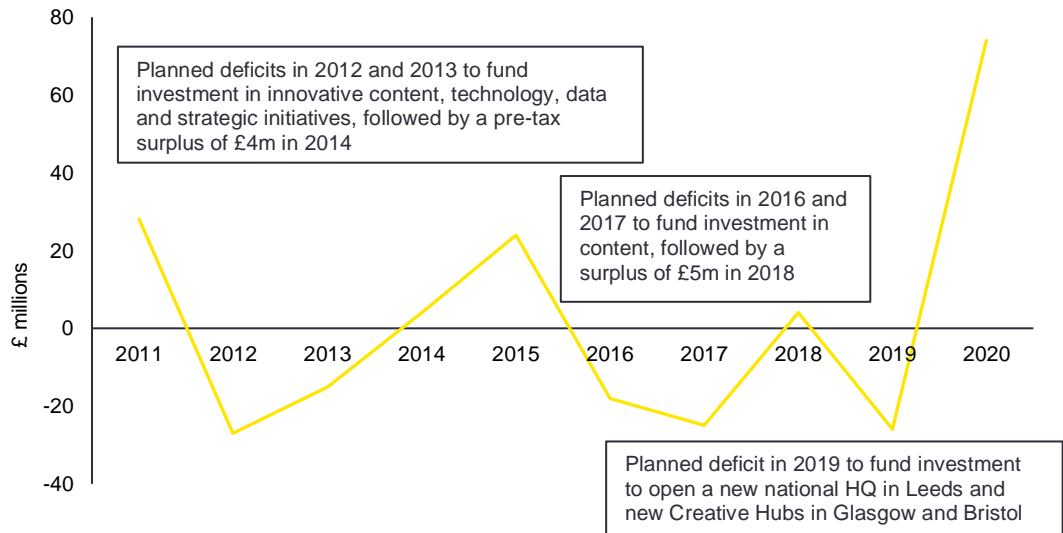
The consultation states that a change of ownership of Channel 4 could better help it to realise these benefits. The consultation also notes reducing taxpayer risk as a more general benefit of privatisation.

In this section of the report, we set out our independent assessment of the extent to which a change of ownership of Channel 4 is required to deliver the above objectives set out by DCMS. In the remainder of this report, we assess the potential economic, social and cultural implications of a change of ownership of Channel 4.

3.2 Channel 4 has plans to diversify its revenues and expects to remain financially sustainable under its current model

Under its current model, Channel 4 is a not-for-profit organisation that reinvests its profits into serving audiences. In some years, Channel 4 generates an operating surplus, while in other years Channel 4 operates at a deficit to deliver planned investment in strategic initiatives, including in technology and programming. In these years, Channel 4 draws upon its reserves and previous periods of operating surplus to fund itself and its investments. Channel 4’s historical financial performance is summarised in Figure 3.1.

Figure 3-1: Channel 4’s operating surplus/deficit, 2011-2020



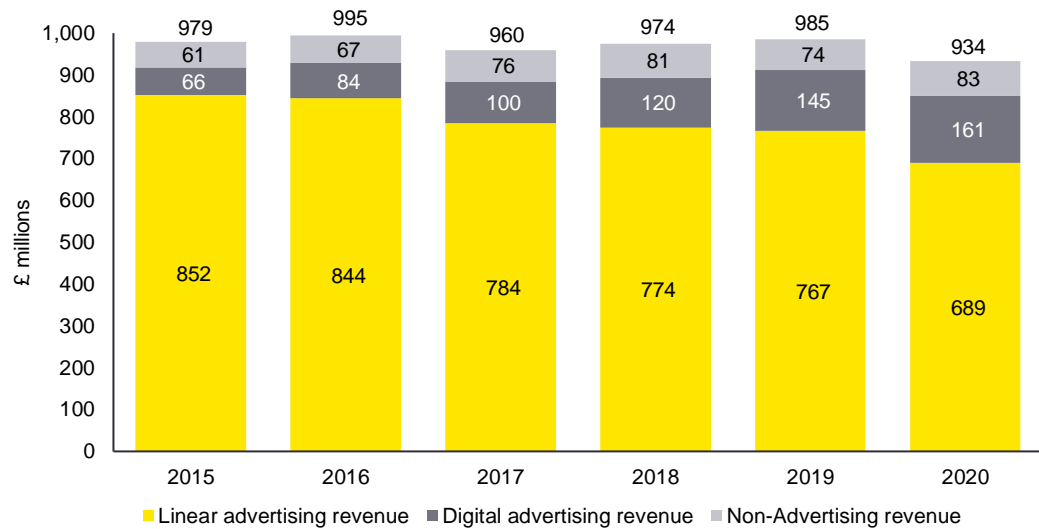
Source: Channel 4 annual reports.

Although it is publicly-owned, Channel 4 does not receive any public funding; it generates its revenues commercially and any operating surplus is retained within the business for future investment. The majority of Channel 4’s revenues (74% in 2020) are generated through linear TV advertising, with the remainder of Channel 4’s revenues generated through digital (i.e., online) advertising and non-advertising income, including rights income, distribution and theatrical revenues.⁴⁵

In recent years, Channel 4 has focused on online growth to reflect changing viewing habits among audiences. The proportion of Channel 4’s revenues that are generated through digital advertising have increased from 7% in 2015 to 17% in 2020, while the proportion of revenues generated through TV advertising has declined from 87% to 74% over the same period. Channel 4 increased its digital advertising revenue by an average of 24% per year between 2015 and 2019.

⁴⁵ Channel 4 Annual Report 2020. <https://assets-corporate.channel4.com/flysystem/s3/2021-06/Channel%204%20-%20Annual%20Report%202020%20-%20FINAL%20%28Accessible%29.pdf>

Figure 3-2: Breakdown of Channel 4's revenues, 2015-2020



Source: Channel 4 annual reports.

In 2020, Channel 4 announced its Future4 strategy to “transform Channel 4 into a digital public service broadcaster”, diversify its revenues and ensure it remains financially sustainable.⁴⁶ As part of this Future4 strategy, Channel 4 has set itself the following targets:

- ▶ Double viewing on All 4, Channel 4's online video-on-demand platform, by 2025.
- ▶ Digital advertising to be at least 30% of total revenue by 2025.
- ▶ Non-advertising to be at least 10% of total revenue by 2025.

These targets are underpinned by four strategic pillars:

- ▶ **Prioritise digital growth over linear ratings:** Channel 4 plans to invest in more distinctive, young-skewing content for All 4 and to create more original shorts and branded digital entertainment, using audience insights to identify shows that drive streaming. It has also launched a £30m Global Format Fund to invest in new UK-created and -produced content formats that have global potential.
- ▶ **Put viewers at the heart of decision-making:** Channel 4 plans to roll out personalisation features on All 4 and use a more viewer-centric approach to inform activity and decisions across Channel 4.
- ▶ **Diversify new revenue streams:** Channel 4 plans to focus on data-driven targeted digital advertising, as well as non-advertising revenues generated through the advertising-free All 4+ proposition, funding independent producers through the Indie Growth Fund and Channel 4 Ventures, and the new Global Format Fund.
- ▶ **Focus on strategic partnerships:** Channel 4 plans to forge new partnerships to ensure its content reaches audiences and to collaborate across production, advertising, distribution and technology.

As such, Channel 4 has a strategy to diversify its revenues and remain financially sustainable under its current model and remit. This strategy includes investment in content and technology.

⁴⁶ Channel 4 - Future4 Strategy, <https://www.channel4.com/corporate/future4>

The Future4 strategy is Channel 4's latest response to a constantly changing broadcasting market. In the past, Channel 4 has demonstrated that it can respond effectively and in an agile way to market developments within its current ownership model and remit. For example, in response to increasing competition from commercial broadcasters in a growing multichannel environment in the early 2000s, Channel 4 launched new television channels including E4 and More4 to build its presence with viewers in multichannel and digital homes. In response to the economic recession during 2008/09, Channel 4 reduced overheads by 20% and cut its programming budget, while increasing its share of total TV advertising revenue. In 2010, Channel 4 upgraded its video-on-demand offering in response to increasing viewing online.

More recently, Channel 4 has demonstrated its sustainability during the COVID-19 pandemic, which caused significant disruption to the TV advertising market. Broadcasters suffered from the impact of deep cuts to advertising spend in 2020, with broadcast TV advertising revenues falling by 15% in 2020 as a result of the pandemic.⁴⁷ As a result, ITV, Channel 4 and Channel 5 all cut content spend, while the BBC identified £125m of savings across its content budgets and operating costs.⁴⁸ Channel 4's response to the financial challenges posed by the pandemic included a focus on improving operational efficiency, a significant temporary cut to its content budget, and a strategic move into fast-turnaround COVID-19 programming, such as Jamie Oliver's *Keep Cooking and Carry On*.

Despite the challenges of the pandemic and the decline in linear advertising revenues in the broadcasting market, Channel 4 generated a record surplus of £74m in 2020, grew its digital advertising revenue from £145m to £161m (+11%) and grew its non-advertising revenue from £73m to £84m (+15%). Channel 4 also grew its share of viewing across both linear and streaming platforms in 2020: linear share grew by 3% on Channel 4, while All 4 views were up 30%.⁴⁹ Channel 4's historical performance indicates that in its current form, it demonstrates resilience and is able to react quickly in response to commercial developments.

3.3 While privatisation could provide more access to capital, investment could be determined by commercial incentives

Channel 4 is subject to borrowing limits set out in legislation, which restrict its access to capital. To date, Parliament has restricted Channel 4's borrowing to £200m and, under its existing ownership model, Channel 4 does not have the option to raise capital from investors.

In its consultation on a potential change of ownership of Channel 4, DCMS states its view that "Channel 4 requires access to significant and sustained capital to innovate and adapt on a larger scale" and that privatisation could help realise these benefits. The consultation states that Channel 4 "has limited resources and content budgets" when compared to global players such as Netflix (which has a global content budget close to \$18 billion), Amazon and Disney, which are able to leverage significant financial resources.⁵⁰ However, it is likely that, following privatisation, Channel 4 would continue to operate as a domestic broadcaster with its primary focus on serving UK audiences. As such, its investment decisions would continue to remain on a different scale to these multinational streaming services, and more in line with other commercially-funded UK public service broadcasters.

While better access to capital could support more Channel 4 investment, its Future4 strategy is designed to ensure Channel 4's financial sustainability within its current model and remit. Private ownership would not guarantee increased investment, but may instead incentivise reduction in content spend in order to reduce risk and generate increased returns for

⁴⁷ Ofcom, (July 2021). *Small Screen: big Debate. Recommendations to Government on the future of public service media*. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0023/221954/statement-future-of-public-service-media.pdf

⁴⁸ Ofcom, (July 2021). *Small Screen: big Debate. Recommendations to Government on the future of public service media*. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0023/221954/statement-future-of-public-service-media.pdf

⁴⁹ Channel 4 Annual Report 2020. <https://assets-corporate.channel4.com/flysystem/s3/2021-06/Channel%20%20-%20Annual%20Report%202020%20-%20FINAL%20%28Accessible%29.pdf>

⁵⁰ DCMS (July 2021). *Consultation on a change of ownership of Channel 4 Television Corporation*. [Consultation on a change of ownership of Channel 4 Television Corporation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/change-of-ownership-of-channel-4-television-corporation)

shareholders. Under Channel 4's current ownership model, profits generated by the broadcaster are reinvested. In 2019, Channel 4 spent 50% (£492m) of its £985m revenues on first-run UK original programming.⁵¹ In comparison, ITV spent 38% (£790m)⁵² of its £2.1 billion broadcast revenues⁵³ on new original programming in 2019.

The approach to investment in Channel 4 would reflect the nature of the new private owner: investment could increase if Channel 4 is bought by a large, well-funded media multinational. However, private shareholder motivations may result in a bias of investment towards content that the new private owner expects to be commercially successful, including acquisitions of content that has already proven popular internationally, with less emphasis on delivering against the qualitative aspects of Channel 4's remit. It may be difficult to enforce against taking a more commercial approach to the delivery of Channel 4's remit under its current public service obligations which, as noted in Section 2.2, are both more extensive and qualitative than remits of the other commercial public service broadcasters, and which require Channel 4 to abide by the spirit of its remit as well as its quotas.

3.4 Channel 4 has strategic partnerships with a range of broadcasters and content providers

Strategic partnerships between public service broadcasters and purely commercial broadcasters or new content providers can help ensure that public service content reaches a broader audience in the format that most appeals to them.

In its consultation, DCMS states that a privatised Channel 4 would have "greater access to strategic partnerships". However, Channel 4's current ownership model and public service obligations do not unduly constrain it from accessing strategic partnerships, and it has already broadened its reach by entering into such partnerships to strengthen the impact of its content. For example:

- ▶ **Sky:** Channel 4 has a long-term partnership with Sky to secure distribution of all of Channel 4's content on Sky's platforms, to integrate All 4 in Sky's products, and for Channel 4 to deliver targeted advertising across Sky's platforms. Channel 4 partnered with Sky to secure free-to-air coverage of the Cricket World Cup Final and the Formula 1 British Grand Prix.
- ▶ **Netflix:** Channel 4 and Netflix have partnered on distribution of programmes originally commissioned by Channel 4, for example *The End of the F***ing World* and *Kiss Me First*, both scripted series that were commissioned by Channel 4 and for which Netflix was responsible for international distribution. Channel 4 and Netflix have also partnered on a non-scripted co-production, *Crazy Delicious*.
- ▶ **TikTok:** Channel 4 and TikTok have partnered to feature exclusive Channel 4 content on its platform. Channel 4 will also publish original content on TikTok as part of TikTok's initiative to create educational videos.
- ▶ **Snapchat:** Snapchat and Channel 4 have a multi-year partnership to make short-form Channel 4 content available to Snapchat's global userbase.

Continuing to form strategic partnerships is one of the four key pillars of Channel 4's Future4 strategy.

⁵¹ Channel 4 Annual Report (2019). https://assets-corporate.channel4.com/flysystem/s3/2021-04/C4_AR19_final_acc_updated%20200421.pdf

⁵² Ofcom, (December 2020). Small Screen: Big Debate Consultation. Paragraph 2.9. https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

⁵³ ITV Annual Report (2019). <https://www.itvplc.com/~media/Files/ITV-PLC/documents/reports-and-results/annual-report-2019.pdf>

3.5 Channel 4 is expanding into international markets through its Global Format Fund

Channel 4 has a strategy to expand into international markets through its Global Format Fund, which is designed to support UK producers to take risks on new, original formats that have the potential to scale across international distribution markets.

The launch of the Global Format Fund demonstrates how Channel 4 is growing its share of intellectual property revenues to diversify its revenues within the constraints of its publisher-broadcaster model. Net receipts from producer exploitation of content commissioned through the Global Format Fund will be shared equally between the producer and Channel 4. These terms contrast to terms for content currently commissioned from external producers by Channel 4, where independent producers retain full control and ownership of the secondary revenue generated through rights exploitation.^{54,55}

Weakening or removing the publisher-broadcaster model could support Channel 4 in further expanding into international markets, although changes to Channel 4's remit could be made within its current ownership structure. The end of the publisher-broadcaster model could have a significant impact on the external production sector, which we discuss in Section 5 of this report.

Additionally, an increased focus on content that is likely to perform well internationally could lead to a decreased focus on content that is distinctively UK-focused and designed to appeal to a UK audience. We discuss this impact further in Section 6 of this report..

⁵⁴ The Codes of Practice govern the principles that public service broadcasters apply when agreeing terms for commissioning independent producers. Under the Codes of Practice, independent producers making TV for public service broadcasters retain the secondary rights to their content and can generate additional revenue by exploiting these rights within the UK and internationally.

⁵⁵ Channel 4, (June 2019). *Channel 4 and Pact agree landmark Terms of Trade deal for new digital era.* <https://www.channel4.com/press/news/channel-4-and-pact-agree-landmark-terms-trade-deal-new-digital-era>

4. Impact on Channel 4's economic contribution

4.1 Channel 4's current ownership structure aligns with the spirit of its public service remit

Channel 4's status as a not-for profit broadcaster provides it with the freedom to take risks in the type of content it commissions, who it works with and how it invests. This is because – while Channel 4 must ensure it remains financially sustainable – it does not have to justify decisions with a view to generating a sufficient commercial return for its owners.

Rather, it can take an approach of cross-subsidisation, commissioning some content that it expects to be commercially successful and leveraging that success to fund investment in content or new talent that is more commercially risky.

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.

In this section, we consider how Channel 4's financial performance under its current model and public service obligations could change if it were led by commercial incentives following privatisation, and the impact this change could have on Channel 4's contribution to economic output and employment.

4.2 We have taken a forward-looking approach to estimating Channel 4's contribution to GVA and jobs

In April 2021, Channel 4 published EY's analysis of its economic, social and cultural contribution to the UK and its Nations and Regions.⁵⁶ As part of this analysis, we estimated Channel 4's contribution to GVA and jobs based on its activities in 2019.⁵⁷ In this report, our assessment of Channel 4's contribution to GVA and jobs is forward looking, forecasting Channel 4's financial plan over a ten-year period to estimate its economic contribution to the UK and the number of jobs it supports in the UK economy. We compare the present value⁵⁸ of Channel 4's economic contribution over a ten-year period under its current model to Channel 4's potential contribution following privatisation.

Our analysis of Channel 4's economic contribution over ten year period under its current ownership structure and model is based on Channel 4's internal three-year plan for the period 2022-2024. We have taken 2023 as our base year for the analysis to reflect Channel 4 in 'steady state' following the successful implementation of its Future4 strategy to diversify revenues. By 2023, Channel 4 also expects to have implemented its 4 All the UK strategy to expand its presence in the Nations and Regions, and using this base year also removes any short-term impacts of COVID-19 on revenues and production spend which may distort the analysis. We have forecast Channel 4's revenues and costs for the subsequent nine years to 2032 assuming no change to its current ownership structure and model. This forecasting has been based on Channel 4's historical growth trends and assumptions from Channel 4's three-year plan extended over the 10-year period of the analysis.

⁵⁶ EY, (2021). *Channel 4's contribution to the UK*. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

⁵⁷ The analysis set out in this report relies on data from the Office for National Statistics (ONS) to calculate multipliers to estimate Channel 4's indirect and induced contribution to GVA and jobs. The ONS has updated the data that we use to calculate multipliers since our previous report (published in April 2021, assessing Channel 4's economic contribution in 2019). The updated ONS data reflects a trend of increasing output per employee across key sectors in our analysis i.e. fewer employees are required to produce £1m of output. This change in multipliers reflects the structural changes in the economy that should be taken into account when comparing the results set out in this report to our analysis of Channel 4's economic contribution in 2019.

⁵⁸ A social discount rate has been applied to estimate the present value of Channel 4's future contribution to GVA, as set out in Annex B.

Following privatisation, the new owner of Channel 4 could take a more commercial approach to fulfilling Channel 4's remit within its current public service obligations. For example:

- ▶ There is currently no quota for Channel 4's spend on content as a proportion of its revenues. The new private owner of Channel 4 could be incentivised to cut content spend to reduce costs.
- ▶ Channel 4's quota for production in the Nations and Regions would need to be increased from 35% to 50% to reflect its current voluntary commitment for regional production (compared to a 35% quota for ITV and 10% quota for Channel 5).
- ▶ Regulation could be required to preserve the way that Channel 4 works with a wide range of producers, including smaller producers and new suppliers.
- ▶ Regulation may need to be more specific about the amount of investment required to fulfil Channel 4's obligation to support talent development and film.
- ▶ Further regulation to preserve Channel 4's distinctive voice, approach to taking risks and presentation of an alternative view of UK culture could be required to counterbalance an incentive to focus on more mainstream, commercially attractive content. These requirements are more qualitative and may be more difficult to enforce under private ownership.

The implications of privatisation depend on a number of factors including the nature of Channel 4's new private owner, its commercial model following privatisation and its future regulatory requirements. Given this, we have sought to analyse different broad outcomes for privatisation in terms of their direction and magnitude rather than seeking to define specific scenarios or 'expected outcomes'. These outcomes are driven by our assessment of how Channel 4's incentives could change following privatisation, as well as assumptions around its model and remit.

We outline the different outcomes of privatisation considered in our analysis in Figure 4.1, with further detail on our assumptions set out in Annex C. Our analysis reflects the privatised Channel 4 in a 'steady state' to allow a like-for-like comparison of its economic contribution.

Figure 4-1: Summary of the different outcomes of privatisation considered in our analysis

Channel 4 continues as a publicly-owned not-for-profit publisher broadcaster and continues to exceed its current public service obligations	<ul style="list-style-type: none"> ▶ Assumptions are in line with Channel 4's three-year plan. ▶ Spend on new commissions in the Nations and Regions is 50% of content spend, in line with Channel 4's voluntary commitment.
Channel 4 is privatised as a publisher-broadcaster with its current public service obligations	<ul style="list-style-type: none"> ▶ Spend on new commissions as a proportion of Channel 4's revenues decreases to the same proportion of comparable revenues as ITV. ▶ Spend on new commissions in the Nations and Regions falls to meet Channel 4's quota of 35% of content spend. ▶ Some staff and associated staff costs move back to London.
Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations	<ul style="list-style-type: none"> ▶ Spend on new commissions as a proportion of Channel 4's revenues decreases to the same proportion of comparable revenues as ITV. ▶ Spend on new commissions in the Nations and Regions is 50% of content spend, in line with Channel 4's voluntary commitment. ▶ Staff remain in the Nations and Regions in line with Channel 4's three-year plan.
Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed	<ul style="list-style-type: none"> ▶ Spend on new commissions as a proportion of Channel 4's revenues decreases to the same proportion of comparable revenues as ITV. ▶ Spend on new commissions in the Nations and Regions is 50% of content spend, in line with Channel 4's voluntary commitment. ▶ 66% of content is commissioned from Channel 4's new in-house production unit, in line with ITV Studios' share of original content on ITV's main channel⁵⁹. ▶ Channel 4 generates new revenues from the production and distribution of content.

⁵⁹ Five year average of ITV Studios UK's share of original content on ITV main channel between 2016 and 2020. Shares taken from ITV annual reports over this period.

We have estimated Channel 4's contribution to the UK's GVA and jobs⁶⁰ on the basis of the cost forecasts using a consistent methodology with that used in our April 2021 report.^{61 62} Our analysis considers two main types of impacts:

- ▶ **Direct impacts:** We analyse the economic impacts driven directly by Channel 4, such as Channel 4's GVA (or contribution to the economy) and the number of employees hired by Channel 4. The direct impact on GVA is defined as the income received by Channel 4's employees (including wages, benefits, employment taxes, national insurance and pensions) and profits made and retained by Channel 4.
- ▶ **Supply chain impacts:** Channel 4 purchases goods and services from other companies in its supply chain, which in turn have their own suppliers (referred to as indirect economic impacts). Each entity involved in Channel 4's supply chain pays compensation to its employees, who spend part of their salaries on goods and services, driving additional economic impacts (referred to as induced economic impacts). We estimate the indirect and induced economic impacts of Channel 4's activities across its whole supply chain. Taken together, we refer to the indirect and induced economic impacts as supply chain impacts.

The methodology we have adopted is detailed in Annex B.

4.3 We have estimated the present value of Channel 4's economic contribution under its current ownership structure

We estimate that, over a ten-year period under its current ownership structure, Channel 4 could generate a total UK-wide GVA contribution of £8.3 billion (present value). Of this, we estimate that £1.1 billion relates to the GVA generated directly by Channel 4 through its profits and remuneration of employees.

Due to its not-for-profit status and publisher-broadcaster model, the majority of Channel 4's economic contribution results from its expenditure with its supply chain, a material part of which is made up of external production companies. We estimate that Channel 4's contribution to GVA through its supply chain represents 87% (£7.2 billion) of its overall UK-wide contribution to GVA. The supply chain impact on GVA reflects investment in commissioning content from external producers, revenue generated by these external producers through secondary rights distribution (estimated to be between £50-70m per year⁶³) and Channel 4's spend with other non-content suppliers such as technology and office facilities providers.⁶⁴

When considering the GVA generated by Channel 4 in the Nations and Regions, we have estimated the impact in Channel 4's supply chain (indirect and induced effects). The profit component of direct GVA is deemed to be a UK-wide impact, as revenues generated by

⁶⁰ We refer to Full Time Equivalent employees (FTEs) supported as jobs supported throughout this report.

⁶¹ EY, (2021). *Channel 4's contribution to the UK*. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

⁶² Our analysis relates to Channel 4's activities and economic contribution solely within the UK. Given that any new ownership structure for Channel 4 is unknown, we have not considered potential synergies that could arise from privatisation. These synergies would generate a higher margin for Channel 4's new private owner, but could result in reduced employment in, for example, centralised and administrative roles. As the identity or primary location of any new owner is unknown, we have not made any assumptions about the level of profits that are distributed to shareholders, compared to the level of profits retained within the business. As a comparison, ITV's annual reports (2015-2019) show that ITV distributed, on average, 77% of its operating profit to its shareholders through equity dividends between 2015 and 2019.

⁶³ Estimate provided by Channel 4.

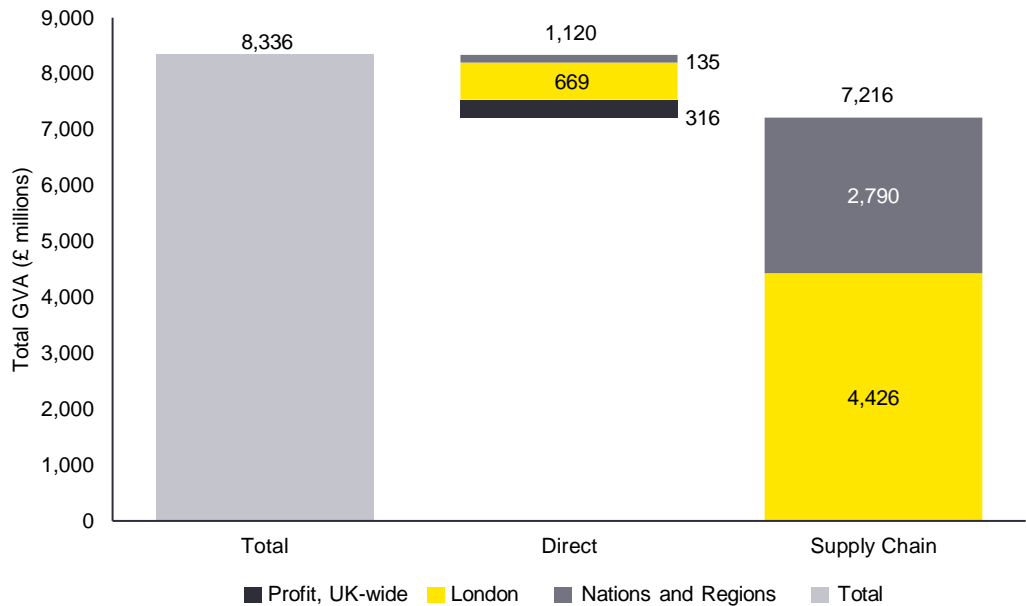
⁶⁴ In theory, the standard economic impact analysis should capture the economic benefit to producers of revenues generated through exploitation of secondary rights of content originally commissioned by Channel 4. In practice, some of these revenues may not be fully captured by the analysis, for example, if production companies are significantly more profitable than other companies within the motion picture and broadcasting sector as a result of these secondary rights revenues.

Channel 4 have not been allocated to different parts of the UK and the Nations and Regions. This is consistent with the methodology adopted in our April 2021 report.⁶⁵

Our analysis suggests that over a ten-year period, Channel 4 could contribute £2.8 billion to GVA in the Nations and Regions through its supply chain (39% of its total supply chain contribution to GVA). As a publisher-broadcaster, a large part of Channel 4's supply chain in the Nations and Regions is made up of regional production companies, as well as expenditure incurred through Channel 4's commitment to shift its geographical bases throughout the UK.

Figure 4.2 illustrates the composition of GVA under Channel 4's current ownership model.

Figure 4-2: Estimate of GVA generated over a ten-year period by Channel 4 under its current operating model



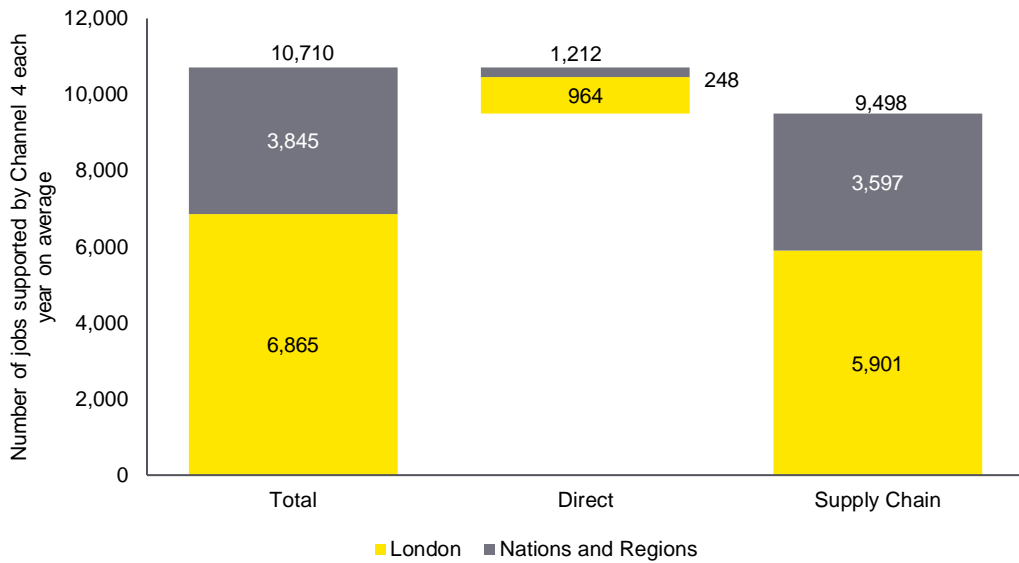
Source: EY analysis of financial data provided by Channel 4. Figures represent the present value of Channel 4's contribution to GVA over a ten-year period.

Considering employment, we estimate that under its current ownership model, Channel 4 could support around 10,700 jobs in the UK economy on average each year, the majority of which (89% or almost 9,500) would be in the supply chain. Channel 4 also supports almost 3,600 jobs (34% of total jobs) through its supply chain in the Nations and Regions.

Figure 4.3 illustrates jobs supported under Channel 4's current ownership structure.

⁶⁵ EY, (2021). *Channel 4's contribution to the UK*. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

Figure 4-3: Estimate of the jobs supported in the UK economy by Channel 4 each year on average under Channel 4's current operating model⁶⁶



Source: EY analysis of headcount data provided by Channel 4.

4.4 We have considered how Channel 4's economic contribution could change following privatisation

We have considered how a private owner of Channel 4, with an incentive to generate value for private shareholders, could interpret Channel 4's current remit and public service obligations, while continuing to operate under the publisher-broadcaster model. We consider the possibility that the new owner of Channel 4 may have an incentive to meet – but not go beyond – the minimum requirements of its public service obligations while reducing its expenditure in order to increase profits.

For example, Channel 4, if privatised with its current public service obligations, could seek to commission more content from London's more concentrated production market. While in practice the new private owner of Channel 4 could choose to continue to exceed its Nations and Regions quotas, there would be nothing in current legislation to prohibit a reduction in current levels of expenditure in the Nations and Regions. Our analysis considers the impact if a privatised Channel 4 chose to reduce spend in the Nations and Regions to the level of its quota (35%), compared to Channel 4's current voluntary commitment of at least 50% of expenditure.

A private owner of Channel 4 could also decrease its level of investment in first-run UK originations with the aim of increasing its profitability. As a not-for-profit entity, Channel 4 has typically spent a relatively high proportion of its revenue on content. For example, in 2019, Channel 4 spent 50% (£492m) of its £985m revenues on first-run UK original programming, representing the third highest amount invested in content in its history⁶⁷; in comparison, ITV spent 38% (£790m)⁶⁸ of its £2.1 billion broadcast revenues⁶⁹ on new original programming in 2019.

⁶⁶ We have calculated the direct jobs supported by Channel 4 in the Nations and Regions using a methodology that is consistent with that used in standard economic impact assessments, in line with our April 2021 report for Channel 4. This standard economic impact methodology differs to how Channel 4 calculates the jobs it supports in the Nations and Regions. Channel 4 informed us that it employs 378 roles in the Nations and Regions including salaried staff, freelancers and contractors.

⁶⁷ Channel 4 Annual Report (2019). https://assets-corporate.channel4.com/flysystem/s3/2021-04/C4_AR19_final_acc_updated%20200421.pdf

⁶⁸ Ofcom, (December 2020). Small Screen: Big Debate Consultation. Paragraph 2.9. https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

⁶⁹ ITV Annual Report (2019). <https://www.itvplc.com/~media/Files/ITV-PLC/documents/reports-and-results/annual-report-2019.pdf>

As a consequence of its not-for-profit status and publisher-broadcaster status, Channel 4 supports the value of its supply chain by reinvesting its profits and commissioning content through independent external producers. Privatisation could change this model, focusing instead on boosting the value of Channel 4.

Our analysis suggests that Channel 4's UK-wide GVA could decrease slightly by 0.4% (£30m) over a ten-year period compared to a scenario where Channel 4 remains in public ownership. While the impact on overall GVA generated is not material, the analysis suggests that privatisation could see more of the value generated by Channel 4 concentrated within Channel 4 rather than supporting its supply chain. If Channel 4 is privatised as a publisher-broadcaster with its current public service obligations, our analysis suggests that 74% of Channel 4's contribution to GVA could be generated through its supply chain, compared to 87% if Channel 4 continued under its current operating model

We estimate that, in the event that Channel 4 were privatised as a publisher-broadcaster with its current public service obligations, direct GVA could increase by 92% (£1 billion) over a ten-year period, due to the new owner's commercial incentives to drive profitability and generate returns for shareholders.

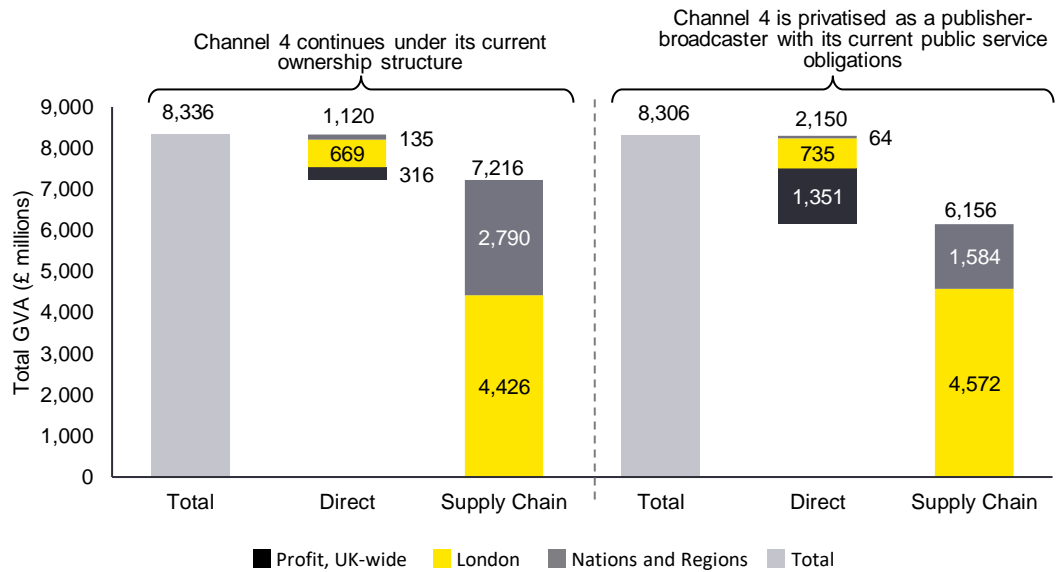
Our analysis suggests that this increase in direct GVA is materially driven by a transfer from Channel 4's supply chain directly to Channel 4. If the new private owner of Channel 4 reduces its spend on new commissions as a proportion of revenues in line with ITV (a decline of 22% in Channel 4's commissioning spend compared to current levels), we estimate that Channel 4's supply chain contribution to GVA could decrease by 15% (£1 billion) compared to a scenario where Channel 4 is not privatised.

Our analysis suggests that the wider creative economy in the Nations and Regions could be disproportionately affected if Channel 4 is privatised with its current public service obligations and remains a publisher-broadcaster. If the new private owner of Channel 4 reduces spend in the Nations and Regions to the level of Channel 4's quota (35%), we 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, while GVA generated through its supply chain in London could increase by 3% (£150m).

In practice, the nature and location of the new owner of Channel 4 could lead to further reductions in the GVA Channel 4 generates in the UK. For example, an international buyer could choose to relocate content and support expenditure outside the UK, reducing Channel 4's economic contribution to the UK and its Nations and Regions.

Figure 4.4 illustrates the composition of GVA under each ownership model.

Figure 4-4: Estimate of GVA generated over a ten-year period where Channel 4 is privatised as a publisher-broadcaster with its current public service obligations



Source: EY analysis of financial data provided by Channel 4. Figures represent the present value of Channel 4's contribution to GVA over a ten-year period.

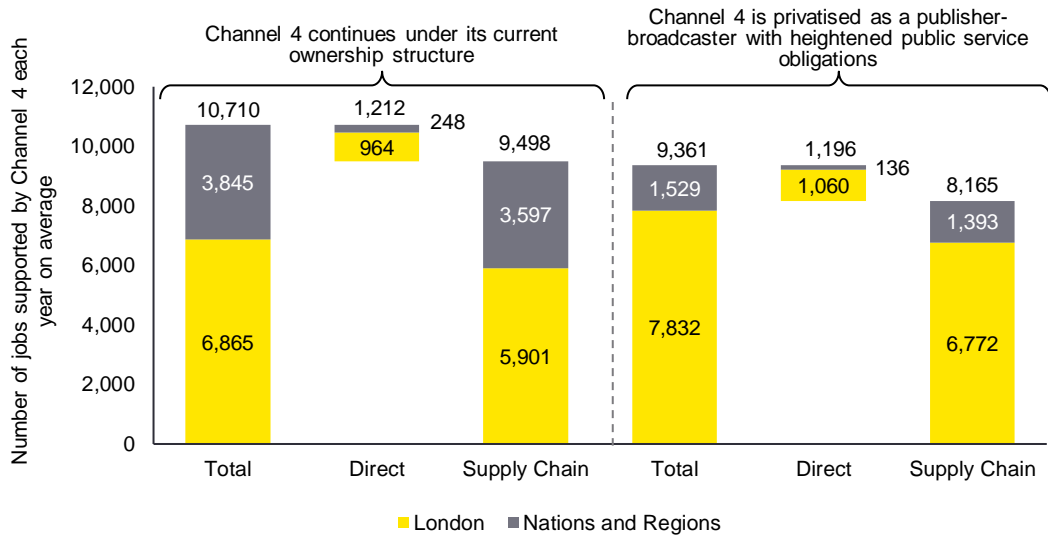
Our analysis suggests that privatising Channel 4 as a publisher-broadcaster with its current public service obligations could reduce the total number of jobs supported by Channel 4. If the new owner of Channel 4 seeks to reduce expenditure to increase profits, we estimate that the number of jobs supported by Channel 4 across the UK could be 13% lower compared to a scenario where Channel 4 is not privatised (a reduction of almost 1,350 in the number of jobs supported each year).

The majority of the impact would be felt in Channel 4's supply chain: we estimate that the number of jobs supported by Channel 4 in its supply chain each year could reduce by 14% (a decline of over 1,300 roles) following privatisation and a subsequent reduction in expenditure on new commissions from external producers as the new owner of Channel 4 seeks to reduce costs by reducing commissioning spend.

Our analysis suggests the wider creative economy in the Nations and Regions could be disproportionately affected by privatisation. We estimate that jobs supported by Channel 4 in the Nations and Regions each year in its supply chain could reduce by 61% (around 2,200 jobs supported each year) compared to a scenario where Channel 4 is not privatised.

Figure 4.5 illustrates the changes in jobs supported under each ownership model.

Figure 4-5: Estimate of the jobs supported by Channel 4 each year on average where Channel 4 is privatised as a publisher-broadcaster with its current public service obligations



Source: EY analysis of headcount data provided by Channel 4. Jobs are average jobs supported each year across the ten-year period.

4.5 We have considered how changing Channel 4's obligations following privatisation could mitigate the reduction in its economic contribution

As part of the privatisation process, DCMS could seek to put in place a set of obligations to minimise the impact of privatisation on the scale and form of Channel 4's economic contribution. We have therefore considered how heightening Channel 4's public service obligations to its current voluntary levels (while it continues to operate as a publisher-broadcaster) following privatisation could change its expenditure, and how such a change could affect Channel 4's economic contribution.

In its consultation, DCMS has set out that a "continued and renewed commitment" to the Nations and Regions may be tied to any change in ownership, and that there is the "opportunity to continue (or even enhance) requirements for Channel 4's spending to be made across the whole of the UK".⁷⁰ In practice, privatisation could lead to a change in any of Channel 4's public service obligations. However, within our analysis, we have focused on changes being made to Channel 4's commitments in the Nations and Regions to reflect this emphasis in DCMS's consultation. Our analysis assumes that Channel 4's quota for production out of London is amended to require Channel 4 to continue to commit at least 50% of its commissioning budget to producers based in the Nations and Regions, and that the new owner makes a commitment to keeping Channel 4's Leeds headquarters, regional Creative Hubs and Manchester sales office. Our detailed assumptions are set out in Annex C.

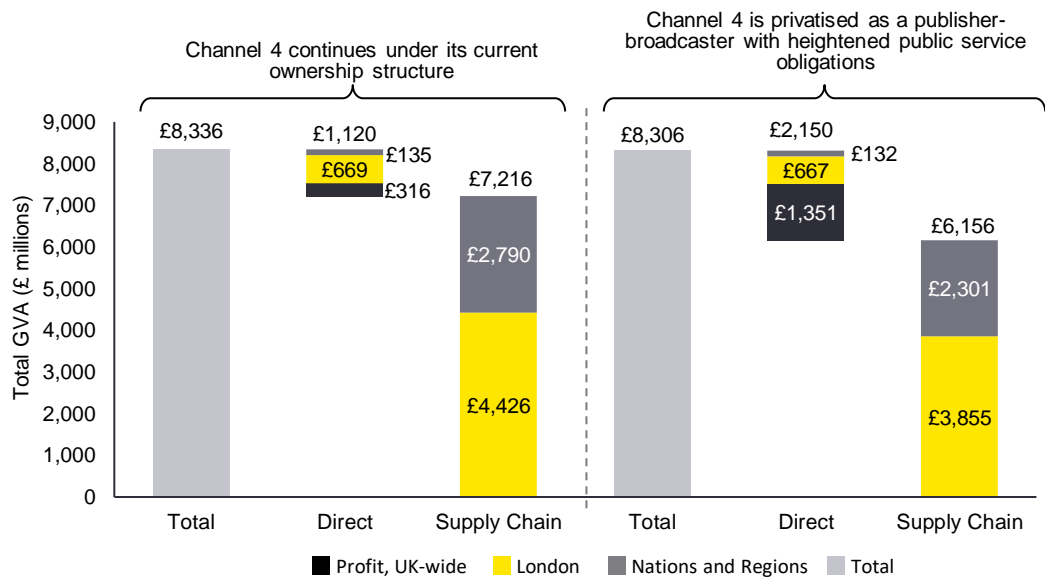
Our analysis suggests that increasing Channel 4's Nations and Regions quotas and obtaining a commitment from the new owner to maintain its regional operations could mitigate some of the impacts of privatisation. We estimate that, under a model for privatisation where Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations, Channel 4's contribution to UK-wide GVA could still decrease by 0.3% (£30m) over a ten-year period when compared to its current ownership structure. Under this model, Channel 4's direct impact could increase by 92% (£1 billion), which could be offset by a reduction of 15% (£1 billion) of GVA in its supply chain.

⁷⁰ DCMS (July 2021). *Consultation on a change of ownership of Channel 4 Television Corporation*. [Consultation on a change of ownership of Channel 4 Television Corporation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/consultation-on-a-change-of-ownership-of-channel-4-television-corporation)

However, heightening Channel 4's public service obligations could mitigate some – but not all – of the adverse impact of privatisation on Channel 4's economic contribution to the wider creative economy in the Nations and Regions. If the new owner of Channel 4 reduced its total spend on commissions as a proportion of revenues to be in line with ITV, but committed to 50% of this lower total spend being in the Nations and Regions, we estimate that Channel 4's contribution to GVA through its supply chain in the Nations and Regions could decrease by 18% (£500m) compared to a scenario where Channel 4 is not privatised. This compares to a decrease of 43% (£1.2 billion) over ten years if Channel 4 were privatised with its current public service obligations. Our analysis suggests that Channel 4's contribution to GVA in its supply chain in the Nations and Regions could be higher under its current ownership structure compared to either model of privatisation considered in our analysis.

Figure 4.6 illustrates the composition of GVA under each ownership model.

Figure 4-6: Estimate of GVA generated over a ten-year period where Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations



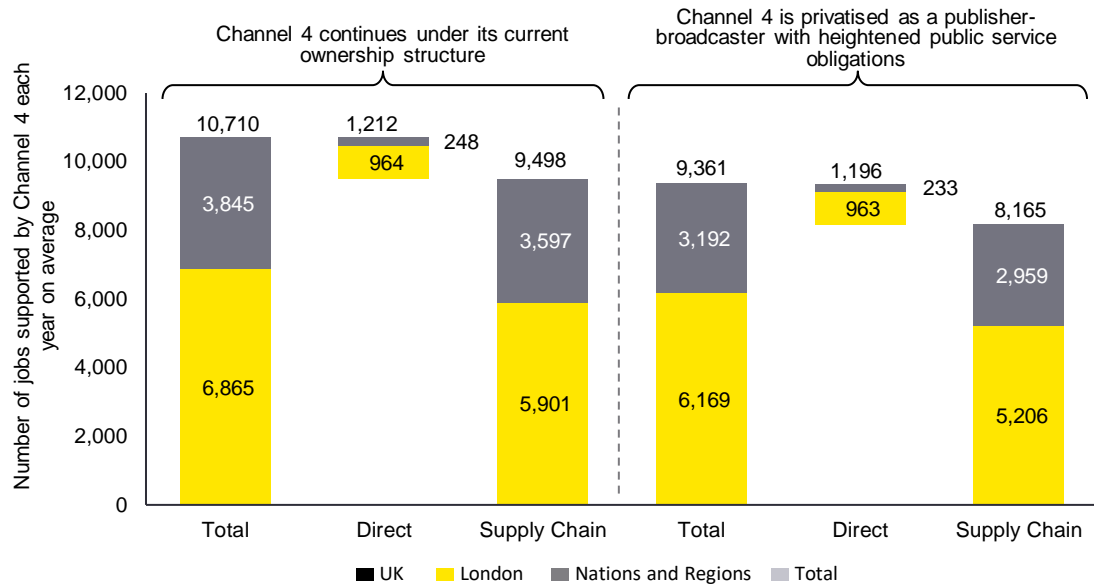
Source: EY analysis of financial data provided by Channel 4. Figures represent the present value of Channel 4's contribution to GVA over a ten-year period.

We estimate that if Channel 4 was privatised as a publisher-broadcaster with heightened public service obligations, Channel 4's contribution to jobs supported directly and within the supply chain could reduce by 13% (1,350 jobs supported each year), when compared to a scenario where Channel 4 is not privatised.

As with the GVA impact, heightening Channel 4's public service obligations could mitigate some – but not all – of the potential impact on jobs supported in its supply chain in the Nations and Regions. If Channel 4's obligations were to be increased, we estimate that the number of jobs supported in the supply chain within the Nations and Regions could decrease by 18% (over 600 roles) compared to a scenario where Channel 4 is not privatised. This compares to a decrease of 61% (over 2,200 roles) in the Nations and Regions supply chain if Channel 4 is privatised with its current public service obligations and model.

Our analysis is summarised in Figure 4.7.

Figure 4-7: Estimate of the jobs supported by Channel 4 each year on average where Channel 4 is privatised as a publisher-broadcaster with heightened public service obligations



Source: EY analysis of headcount data provided by Channel 4. Jobs are average jobs supported each year across the ten-year period.

4.6 Our analysis illustrates the potential impact on Channel 4's economic contribution in the Nations and Regions

Under its current model as a publicly-owned, not-for-profit publisher-broadcaster, the majority of the economic value Channel 4 generates is through its supply chain, benefitting the wider creative economy. Our analysis suggests that privatisation could transfer benefits from Channel 4's supply chain directly to Channel 4. Privatisation could be particularly detrimental to the creative economy in the Nations and Regions and the production sector outside of London, particularly if Channel 4's quota is not increased to protect the proportion of Channel 4's commissioning spend in the Nations and Regions.

This illustrates the policy choice relating to Channel 4's remit and model and, in particular, the impact of policy choices on Channel 4's role as a stimulus to the wider creative economy, particularly in the Nations and Regions.

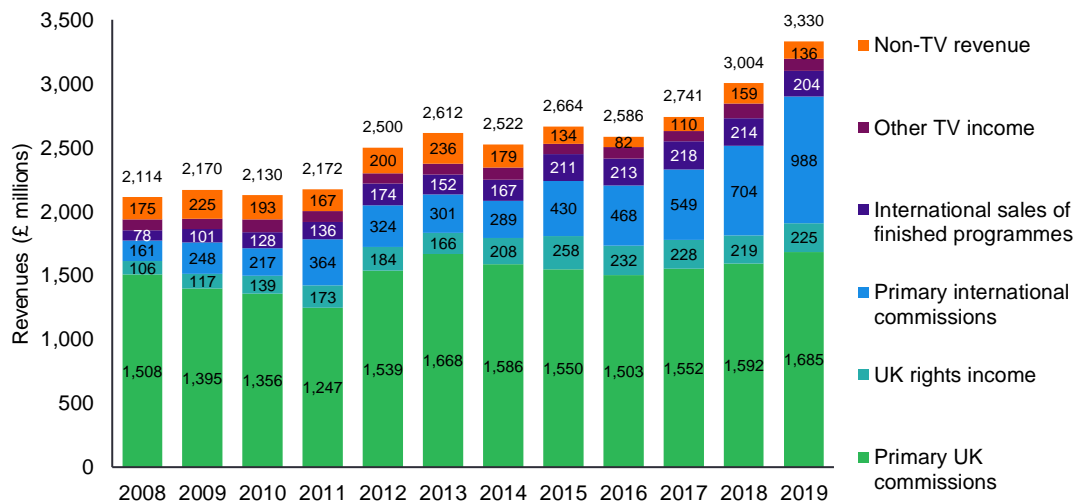
5. Impact on the production sector including in the Nations and Regions

5.1 The success of the UK production sector is linked to the support of the public service broadcasters

The UK production sector is an “internationally successful part of our creative economy and projects the UK positively across the globe”,⁷¹ making a significant economic, social and cultural contribution to the UK:

- ▶ In 2019, total UK television production sector revenues were £3.3b, with overall sector revenues growing at just over 4% per year since 2012 (Figure 5.1).^{72,73}
- ▶ Pact, the UK screen sector trade body, describes the UK as “a global cultural powerhouse”, with UK TV international exports of £1.48b in 2019/20.⁷⁴
- ▶ The UK is a world leader in exporting unscripted formats, comprising 42% of global unscripted format sales in 2020 (Figure 5.2).
- ▶ TV and film created by UK producers contribute to national culture, reflecting the UK and its diverse communities back to itself, and also contribute to the UK’s image abroad through international exports.
- ▶ The sector comprises both large producers and a long tail of small and medium sized enterprises.

Figure 5-1: Trend in production sector revenues, 2008-2019⁷⁵



Source: Pact Census.

⁷¹ Ofcom, (February 2021). *Small Screen: Big Debate – Public service broadcasters and the UK production sector.* https://www.ofcom.org.uk/_data/assets/pdf_file/0027/212679/call-for-evidence-psb-production-sector.pdf

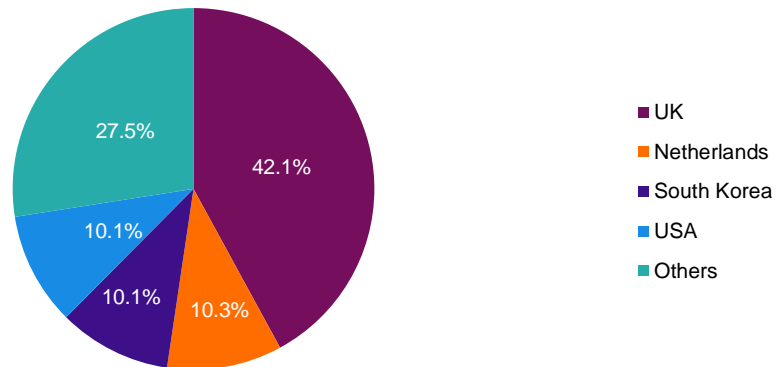
⁷² Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census.* <https://static1.squarespace.com/static/5caccbb42a568278dd5430feb/t/5fbbeca54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

⁷³ The Pact Census defines the UK production sector as TV and film production companies in the UK excluding those companies wholly owned by public service broadcasters.

⁷⁴ 3Vision for Pact, (November 2020). *UK TV Exports Report 2019-20.* <https://www.pact.co.uk/static/ba645c40-0b89-46aa-bda67577d73afc3e/ExportReport2020.pdf?userDownload=true>

⁷⁵ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census.* <https://static1.squarespace.com/static/5caccbb42a568278dd5430feb/t/5fbbeca54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

Figure 5-2: Unscripted format sales volume by country of origin, 2020⁷⁶



Source: K7 Media.

The success of the UK production sector can be linked to a number of policy interventions introduced to boost the sector and maximise its significant economic, social and cultural benefits. These policy interventions include:

- ▶ **The creation of Channel 4:** Channel 4’s establishment as a publisher-broadcaster, commissioning all of its content from the external production sector, was a key intervention to support independent producers and effectively launched the UK production sector. Ofcom has said: “Public policy interventions have played a significant role in developing the independent production sector in the UK, with the creation of Channel 4 as a publisher-broadcaster the most significant”.⁷⁷
- ▶ **Regional production:** The public service broadcasters are subject to quotas to produce a certain proportion of content (in terms of both hours and spend) outside London. The BBC and Channel 4 are also subject to quotas to produce a certain proportion of content in the Nations outside England.
- ▶ **Qualifying independent producers:** The public service broadcasters are subject to a quota to commission 25% of content in terms of hours from ‘qualifying independent producers’, defined as production companies that are not tied to a UK broadcaster through significant common ownership.⁷⁸
- ▶ **Code of Practice:** Codes of Practice govern the principles that public service broadcasters apply when agreeing terms for commissioning independent producers. Under the Codes of Practice, independent producers making TV for public service broadcasters retain the secondary rights to their content and can generate additional revenue by exploiting these rights within the UK and internationally.
- ▶ **Tax incentives:** Companies can claim a payable cash rebate of up to 25% of UK qualifying expenditure for high-end television production, providing the content qualifies as British via a cultural test. There is also a separate tax incentive for film productions.

⁷⁶ K7 Media, (April 2021). *Tracking the giants: The top 100 travelling un scripted formats, 2020-2021*. <https://k7.media/wp-content/uploads/2021/04/K7-Special-Report-Tracking-the-Giants-2020-2021-1.pdf>

⁷⁷ Ofcom, (July 2021). *Small Screen: Big Debate. Recommendations to Government on the future of public service media*. https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0023/221954/statement-future-of-public-service-media.pdf

⁷⁸ The Broadcasting (Independent Productions) Order 1991 (as amended) states that an independent producer is: (i) not employed by a broadcaster; (ii) does not have a shareholding greater than 25% in a UK broadcaster; or (iii) in which no single UK broadcaster has a shareholding greater than 25% or any two or more UK broadcasters have an aggregate shareholding greater than 50%.

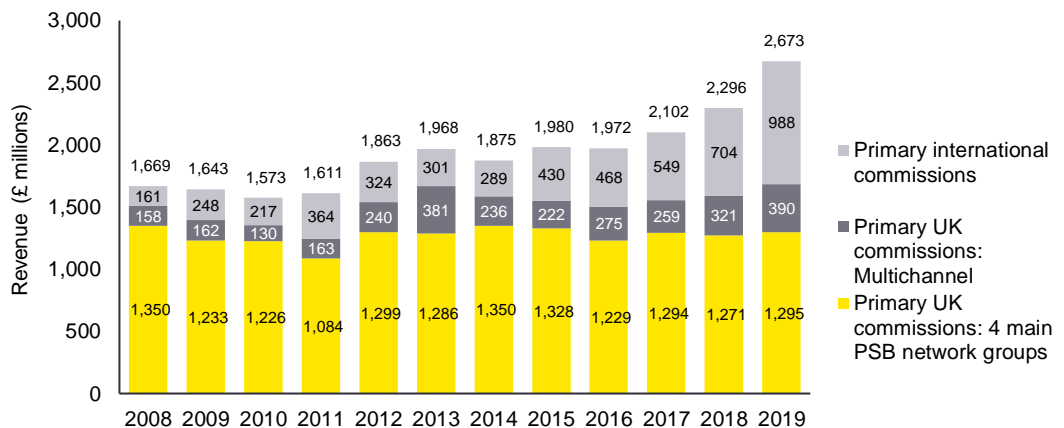
Supporting the independent production sector has been a key aspect of government policy in relation to public service media for many years, both in the UK and across Europe.⁷⁹

5.2 Commissions from public service broadcasters remain a cornerstone of the production sector

Independent producers increasingly obtain a significant proportion of their revenues from commissions from broadcasters and content providers other than the UK public service broadcasters, with multinational subscription streaming services like Netflix, Amazon Prime and Disney+ emerging as significant commissioners of UK content in recent years.

Although independent producers increasingly obtain a significant proportion of their revenues from commissions from commercial broadcasters the majority of UK commissioning revenue is still derived from the public service broadcasters. Commissions for UK external producers from the four main public service broadcaster network groups⁸⁰ accounted for 77% of primary commissions from UK broadcasters in 2019 and 48% of total primary commissions (including primary commissions from both UK and international broadcasters) (Figure 5.3).

Figure 5-3: Primary commissions for UK external producers, revenue breakdown, 2008 to 2019⁸¹



Source: Pact Census.

Public service broadcasters play a particularly important role in the Nations and Regions, in part due to the production quota requirements for commissioning content from the Nations and Regions. The majority of out of London productions are commissioned by the public service broadcasters (61% of primary commissions in 2019).⁸²

As such, any policy intervention that changes the roles or remits of the public service broadcasters is likely to have a significant impact on the production sector. We consider this relationship in the context of Channel 4 privatisation below.

⁷⁹ EY for Ofcom, (October 2020). *International perspectives on public service broadcasting: EY report for Ofcom.* https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0026/204587/international-perspectives-on-psb.pdf

⁸⁰ Including the main and portfolio channels for the BBC, ITV, Channel 4 and Channel 5 network groups.

⁸¹ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census.* <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbbee54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

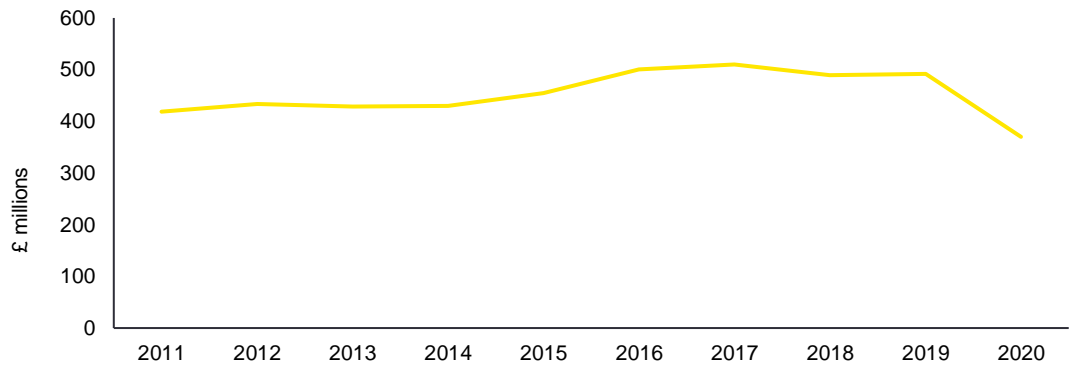
⁸² Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census.* <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbbee54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

5.3 Since its inception, Channel 4 has played a major role contributing to the UK production sector

5.3.1 Channel 4 typically spends nearly £500m per year with external producers on originated content

The success of the production sector is linked to the inception of Channel 4 and its publisher-broadcaster status, which is designed to support the wider creative economy. Channel 4 typically spends nearly £500m per year on originated content, as illustrated in Figure 5.4.⁸³

Figure 5-4: Channel 4 spend on originated content across all services



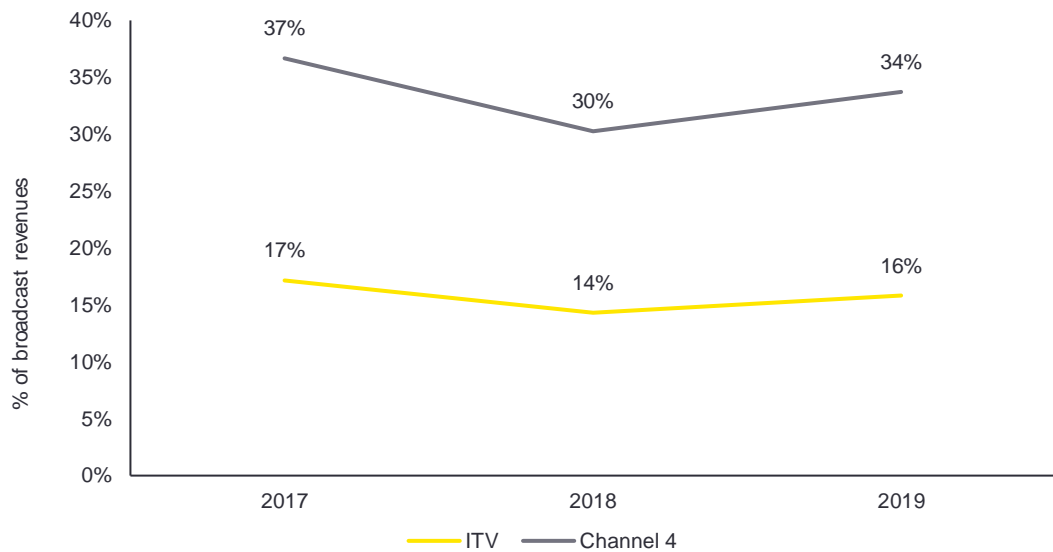
Source: Channel 4 annual reports

Channel 4 commissions represented 20% of independent production sector revenue from primary UK commissions in 2019, equivalent to 12% of total primary commissions revenue across the sector.⁸⁴

The value of Channel 4’s spend with external producers in 2019 represented 34% of Channel 4’s revenues, compared to 16% for ITV (as a proportion of ITV’s broadcast revenues, Figure 5.5). Channel 4’s higher spend with external producers as a proportion of its revenues is consistent with its publisher-broadcaster status, in contrast to ITV, which also commissions content from its production unit, ITV Studios.

⁸³ Channel 4’s spend on originated content in 2020 was £370m, representing a 25% decrease compared to 2019, reflecting Channel 4’s response to the financial challenges and disruption caused by the COVID-19 outbreak and subsequent lockdowns.

⁸⁴ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbeca54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

Figure 5-5: Value of external UK TV commissions by broadcaster as a proportion of broadcast revenues

Source: *Pact Census*⁸⁵, *broadcaster annual reports*, *EY analysis*⁸⁶

5.3.2 Channel 4 makes a significant contribution to UK TV exports

Programmes originally commissioned by Channel 4 make a significant contribution to UK TV exports. For example, of the top 100 unscripted global formats (commissioned by broadcasters from across the world) with the highest international sales as of 2020, 31 relate to programmes first commissioned by a UK broadcaster and nine relate to programmes first commissioned by Channel 4.⁸⁷

Again, due to the publisher-broadcaster model and the Codes of Practice, Channel 4 also makes a significant contribution to independent production sector revenues through exports. Producer rights income from programmes originally commissioned by Channel 4 is estimated to be around £50-70m per year.⁸⁸

If the publisher-broadcaster model was removed, Channel 4 would be permitted to make its own programmes and retain the rights to programmes it commissions from its in-house production unit. As such, revenues that external producers generate through secondary rights exploitation of content originally commissioned by Channel 4 could be reduced.

5.3.3 Channel 4's spend is particularly important for producers based in the Nations and Regions

While policy intervention has helped to develop the independent production sector in the Nations and Regions, the sector is concentrated in London. In 2019, 57% of primary commissioning spend and 63% of production sector jobs were based in London.⁸⁹

Additionally, recent investment from multinationals has tended to have been concentrated in South East England. For example, Netflix has created a UK production hub at Shepperton

⁸⁵ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbbee54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

⁸⁶ This analysis shows the value of external UK TV commissions as a proportion of ITV's total Broadcast revenue. Broadcaster spend figures are based on *Pact Census*, which estimates spend from a survey of producers that covers the latest financial year and may therefore differ from those reported by the broadcasters.

⁸⁷ K7 Media, (April 2021). *Tracking the giants: The top 100 travelling unscripted formats, 2020-2021*. <https://k7.media/wp-content/uploads/2021/04/K7-Special-Report-Tracking-the-Giants-2020-2021-1.pdf>

⁸⁸ Estimate provided by Channel 4.

⁸⁹ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census: Nations and Regions Annex*. <https://www.pact.co.uk/static/cbe8315f-60fa-4c77-91f9d33060d0c108/Oliver-and-Ohlbaum-Pact-Census-2020-Nations-and-Regions-Annex.pdf>

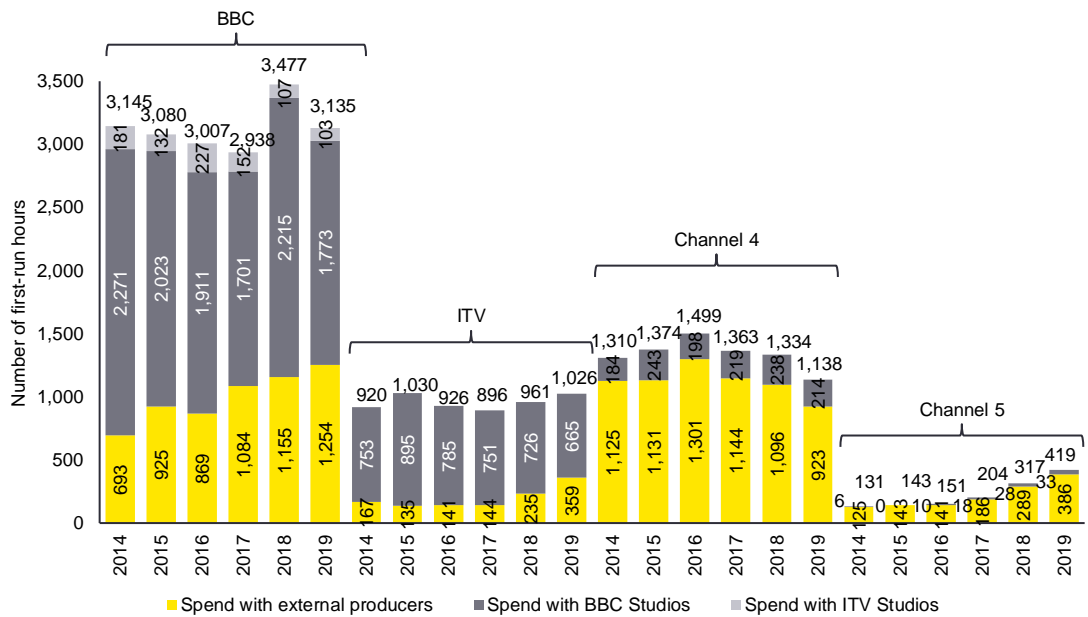
Studios in Surrey while Disney has signed a long-term lease for Pinewood Studios near London.

Channel 4 commissions play an important role in supporting the development and sustainability of the independent production sector outside London, with Channel 4 spending £189m on programmes from production companies based in the Nations and Regions in 2019.⁹⁰

While all public service broadcasters have outperformed their quotas for production made outside London in recent years, all of Channel 4's production spend in the Nations and Regions goes to external producers. In contrast, the BBC and ITV's performance against their respective quotas also includes commissions of in-house Nations and Regions productions.

For example, in 2019, 65% of ITV's first-run originations in the Nations and Regions were made by ITV's in-house production unit outside London, with 35% of ITV's first-run out of London originations being made by external producers in the Nations and Regions.⁹¹ In 2018, 76% of ITV's first-run out of London originations were made by ITV Studios. Similarly, in 2019, 57% of the BBC's first-run out of London originations were made by BBC in-house production facilities (Figure 5.6).^{92,93}

Figure 5-6: Volume of first-run Made out of London originations by broadcaster and type of producer⁹⁴



Source: Oliver & Ohlbaum for Channel 4

Channel 4 accounted for 17% of primary commissions produced in the Nations and Regions with independent production companies in 2019, higher than any other broadcaster except

⁹⁰ £141m in 2020, reflecting a lower overall content budget due to the pandemic. Channel 4 Annual Report 2020. https://annualreport.channel4.com/assets/pdf/Full_Channel4_AR20_ACC.pdf

⁹¹ Oliver & Ohlbaum for Channel 4, (August 2021). *Made-outside-London PSB production data*

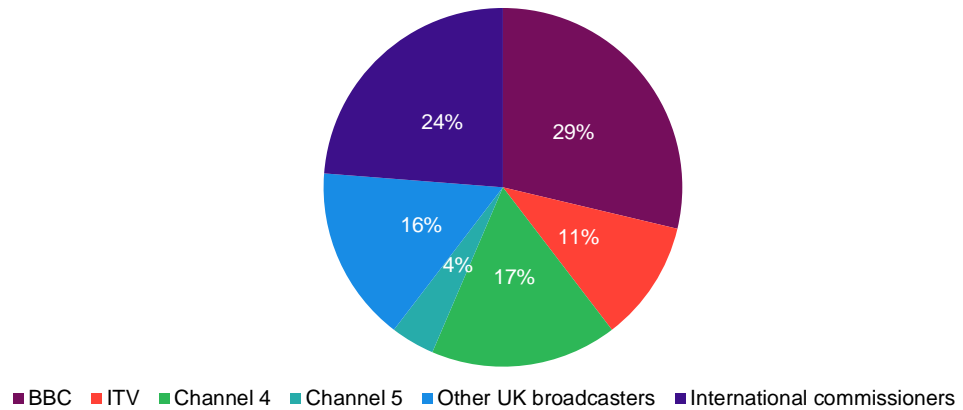
⁹² Oliver & Ohlbaum for Channel 4, (August 2021). *Made-outside-London PSB production data*

⁹³ While all of Channel 5's first-run out of London originations were made by external producers in 2017, Channel 5's made out of London quotas are much lower than Channel 4's and ITV's (10% compared to 35%) and therefore its total spend with producers in the Nations and Regions tends to be lower.

⁹⁴ Oliver & Ohlbaum for Channel 4, (August 2021). *Made-outside-London PSB production data*

the BBC (Figure 5.7).⁹⁵ Channel 4 reported spending £189m on productions in the Nations and Regions in the year.⁹⁶

Figure 5-7: Nations and Regions primary commissions with external producers, value by commissioner⁹⁷



Source: *Pact Census*.

5.3.4 A material proportion of Channel 4’s commissioning spend is with small and medium-sized producers

The production sector is characterised by a small number of large producers and a significant number of small producers, with producers with a turnover of less than £10m per year accounting for 15% of sector revenues in 2019.⁹⁸ Channel 4 supports a wide range of external producers, working with 274 different producers in 2020.⁹⁹

In particular, Channel 4 plays an important role supporting small and medium sized producers, and in 2019 Channel 4 and Channel 5 held the highest share of commissioning with small and medium sized producers (turnover of less than £25m), as illustrated in Figure 5.8. In total, Channel 4 commissioning supports more small and medium sized producers than Channel 5, in keeping with respective levels of external commissioning spend, with Channel 4 spend more than four times higher than that of Channel 5 in 2019.¹⁰⁰

⁹⁵ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census: Nations and Regions Annex*. <https://www.pact.co.uk/static/cbe8315f-60fa-4c77-91f9d33060d0c108/Oliver-and-Ohlbaum-Pact-Census-2020-Nations-and-Regions-Annex.pdf>

⁹⁶ Channel 4 Annual Report 2020. <https://assets-corporate.channel4.com/flysystem/s3/2021-06/Channel%204%20-%20Annual%20Report%202020%20-%20FINAL%20%28Accessible%29.pdf>

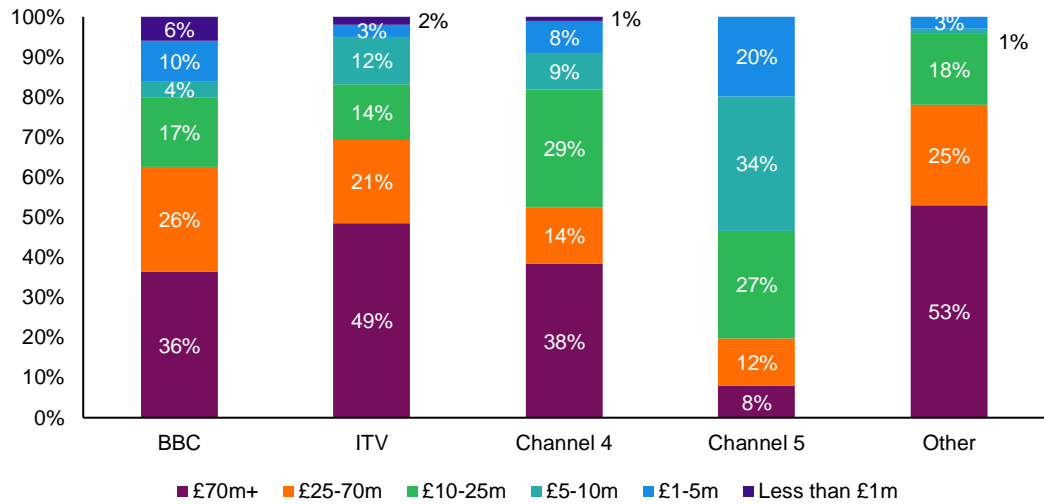
⁹⁷ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census: Nations and Regions Annex*. <https://www.pact.co.uk/static/cbe8315f-60fa-4c77-91f9d33060d0c108/Oliver-and-Ohlbaum-Pact-Census-2020-Nations-and-Regions-Annex.pdf>. Percentages do not sum to 100 due to rounding.

⁹⁸ *Ibid.*

⁹⁹ Channel 4 Annual Report 2020. https://annualreport.channel4.com/assets/pdf/Full_Channel4_AR20_ACC.pdf

¹⁰⁰ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5caccbb42a568278dd5430feb/t/5fbbeca54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

Figure 5-8: External commissioning value by UK broadcaster split by producer turnover band, 2019¹⁰¹



Source: Pact Census.

Channel 4 also has the highest proportion of hours commissioned from ‘qualifying’ independent producers. In 2019, Channel 4 commissioned 44.5% of first-run hours on its main channel from qualifying independent producers, compared to 43.6% for Channel 5, 36.9% for ITV and 32.2% for the BBC.¹⁰²

Faced with a shift in incentives towards private shareholder value following privatisation, the new owner of Channel 4 may seek to reduce commercial risk by working with a smaller number of large producers which may have greater experience, breadth of connections and financial stability.

5.3.5 Channel 4’s not-for-profit status allows it to take a risk supporting new start-ups

Beyond its commissioning activity, Channel 4 makes a wider contribution to the external production sector by supporting producers through a range of training initiatives and investments. These activities support opportunities for producers across the UK’s Nations and Regions and are also intended to drive diversity in the production sector. Some of Channel 4’s main relevant activities supporting the production sector include:

- ▶ **Emerging Indie Fund:** The Emerging Indie Fund provides bespoke support for external production companies based in the Nations and Regions to help enable small, new, emerging external producers to grow.
- ▶ **Creative Diversity Fund:** The Creative Diversity Fund is a development and production fund to support and accelerate diverse ideas, talent and external production companies.
- ▶ **Indie Growth Fund:** Established in 2014, the Indie Growth Fund is a commercial venture set up by Channel 4 that invests in early stage external production companies and supports their development. As part of the 4 All the UK strategy, the Indie Growth Fund has been refocused to prioritise investment in companies based in the Nations and Regions, companies led by people from ethnically diverse backgrounds, and digital companies.

¹⁰¹ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5caccbb42a568278dd5430feb/t/5fbbeea54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>. Percentages may not sum to 100% due to rounding.
¹⁰² Ofcom, 2020. *PSB Annual Compliance Report*. <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/annual-report-2020>

- ▶ **Indie Accelerator:** In July 2020, Channel 4 launched its Indie Accelerator, which supports production companies where the main shareholders, the leading decision makers or the creative leaders comprise those from ethnically diverse backgrounds. The Indie Accelerator is a two year commitment, which aims to double the number of external producers led by people from ethnically diverse backgrounds that Channel 4 commissions from by 2023.

Through the above initiatives, Channel 4 takes an important role supporting new and emerging independent producers; its public ownership and not-for-profit status allows it to take a risk on supporting new talent and ideas. This role has meant that Channel 4 has acted as a catalyst for the growth of new start-ups in the production sector. Of the 274 different producers that Channel 4 worked with in 2020, 37 were new suppliers.¹⁰³

True North

True North was one of the first external production companies that Channel 4 invested in through the Indie Growth Fund, and was the first investment it made outside London. Following the investment in 2014, Channel 4 initially took a 21% stake of the business, increasing this stake to 23% in 2015. In 2017, Sky bought a majority stake in True North, with its distribution arm, Sky Vision, representing all of True North's future programming and formats.

Following Channel 4's investment, True North diversified its portfolio of work and has become the biggest factual producer in the North of England, winning several awards.

The deal represents Channel 4's first full Indie Growth Fund exit. All returns have since been reinvested into the Indie Growth Fund to support future investments in the external production sector.

Candour

Channel 4 invested in Candour (previously True Vision Yorkshire) through the Indie Growth Fund in April 2019.

Candour represents is the second investment in a Yorkshire-based production company for the Channel 4 Indie Growth Fund, the first being True North.

Martin Baker, Channel 4 Director of Commercial Affairs, who oversees the Indie Growth Fund said: "This deal reinforces Channel 4's commitment to driving growth in the creative industries outside London."

5.3.6 Film4 supports independent film productions in the UK

Film4 productions was created when Channel 4 was first established to fulfil its statutory media content duty to "make, broadcast and distribute high-quality films, intended to be shown to UK audiences, and broadcast and distribute films (including third party films) that reflect cultural activity in the UK to audiences". Film4's brief is "to help sustain the British independent film sector".¹⁰⁴

Film4 supports film projects at an early stage with development funding and expert advice and guidance, aiming to work with "the most distinctive and innovative talent in UK and international filmmaking, whether new or established".¹⁰⁵

¹⁰³ Channel 4 Annual Report 2020. https://annualreport.channel4.com/assets/pdf/Full_Channel4_AR20_ACC.pdf

¹⁰⁴ Memorandum by Channel 4. <https://publications.parliament.uk/pa/ld200910/ldselect/ldcomuni/37/9110402.htm>

¹⁰⁵ Film4, FAQs. <https://www.film4productions.com/faqs>

Channel 4 worked with 79 film companies in 2020, seven more than in 2019. This increase, of 10%, is due in part to the commissioning of a series of short films in response to the Black Lives Matter movement.¹⁰⁶

5.4 Ending the publisher-broadcaster model would lead to structural changes within Channel 4

In its consultation on a change of ownership of Channel 4, DCMS is seeking evidence on the impact of weakening or removing the publisher-broadcaster model to permit Channel 4 to make its own programmes, in keeping with the business models of other broadcasters. DCMS believes this change will allow Channel 4 to diversify its revenues and support its future sustainability.

We have considered how Channel 4's expenditure could change if the publisher-broadcaster model was removed and Channel 4 established an in-house production capability. We have estimated the potential economic impact of this structural change of Channel 4's financial projections. Our key assumptions to support this analysis are set out in Annex C.

Our analysis reflects the privatised Channel 4 in a 'steady state' to allow a like-for-like comparison of its economic contribution. In practice, it would take time for Channel 4 to establish its production and distribution units efficiently and competitively. As a consequence, the benefits to a private owner of removing the publisher-broadcaster model may not be realised for several years.

Overall, our analysis suggests that removing the publisher-broadcaster model could generate a higher contribution to GVA: we estimate that Channel 4's total GVA contribution could be 5% (£460m) higher if it is privatised and the publisher-broadcaster model is removed, compared to a scenario where Channel 4 is not privatised and there is no change to its role.

The increase in overall GVA is driven by an increase in Channel 4's direct contribution to GVA due to its increased breadth of activities following the removal of the publisher-broadcaster model. Our analysis suggests that Channel 4's direct contribution to GVA over a ten-year period could increase by £2.5 bn if the publisher-broadcaster model were to be removed following privatisation compared to Channel 4 in its current form (£3.6bn vs. £1.1 bn).

However, our analysis suggests that removing the publisher-broadcaster model could reduce Channel 4's contribution to the wider creative economy, as the new owner of Channel 4 could be incentivised to make more programmes in-house, in order to retain intellectual property rights, and therefore spend less with external producers. If 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 channel¹⁰⁷, we estimate that the present value of Channel 4's supply chain contribution to GVA over a ten-year period could be 29% lower compared to Channel 4's current model (£5.1bn vs. £7.2bn).

Given Channel 4's current level of spend with external producers in the Nations and Regions, 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 (£1.8bn vs. £2.8bn), due to a shift in commissioning spend towards in-house productions.

In our analysis, we have assumed that, following the removal of the publisher-broadcaster model, Channel 4's quota for spend on production in the Nations and Regions is increased to 50% to match its current voluntary commitment. It is our expectation that Channel 4 could

¹⁰⁶ Channel 4 Annual Report 2020. https://annualreport.channel4.com/assets/pdf/Full_Channel4_AR20_ACC.pdf

¹⁰⁷ Five year average of ITV Studios UK's share of original content on ITV main channel between 2016 and 2020. Shares taken from ITV annual reports over this period.

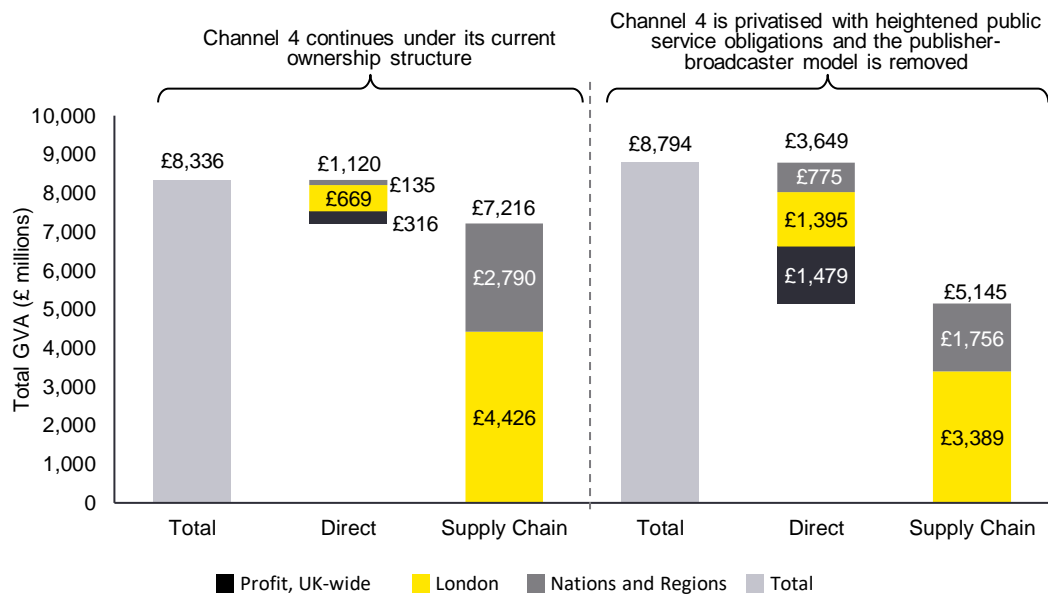
seek to meet its increased Nations and Regions quota in this scenario in part through its in-house production unit, in line with ITV’s approach, to retain the intellectual property rights for this content and to reduce the commercial risk of working with a wide range of suppliers. As such, the GVA generated through Channel 4’s supply chain in the Nations and Regions following the removal of the publisher-broadcaster model would in part be generated by spending by Channel 4’s in-house production unit, rather than by spending with external producers. Privatising Channel 4 and removing the publisher-broadcaster model could therefore result in a more significant transfer of value away from external producers based in the Nations and Regions.

As noted in Section 4.4, the nature and location of the new owner of Channel 4 could lead to reductions in the GVA Channel 4 generates in the UK. For example, an international buyer could shift more spending outside the UK, reducing Channel 4’s economic contribution to the UK and its Nations and Regions.

Our analysis illustrates the policy choice relating to Channel 4’s remit and model and, in particular, the impact of policy choices on **Channel 4’s role as a stimulus to the wider creative economy, particularly in the Nations and Regions**. If the publisher-broadcaster model is removed, 59% of Channel 4’s contribution to GVA could be generated through its supply chain, compared to 87% if Channel 4 remains a publicly-owned publisher-broadcaster.

Figure 5.9 summarises our analysis.

Figure 5.9: Estimate of GVA generated over a ten-year period where Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed



Source: EY analysis of financial data provided by Channel 4. Figures represent the present value of Channel 4’s contribution to GVA over a ten-year period.

Removing the publisher-broadcaster model could mean that Channel 4 could directly support more jobs as it could hire staff to work in its new production and distribution units. The exact number of jobs directly supported by Channel 4 would fluctuate year on year and vary on a production-by-production basis. As a simplifying assumption within our analysis, we have calculated an approximate impact on the number of jobs directly supported by Channel 4 in London and the Nations and Regions. To do this, we have considered the expected

expenditure on staff costs in London and the Nations and Regions incurred from producing content in-house against the average salary at Channel 4.¹⁰⁸

Our analysis suggests that the number of jobs supported by Channel 4 in its supply chain each year could decline by 26% if Channel 4 is privatised and the publisher-broadcaster model is removed, compared to Channel 4's current model (7,060 jobs supported each year compared to 9,500 jobs supported each year). We estimate that jobs supported in Channel 4's supply chain in the Nations and Regions each year could be disproportionately affected, with an estimated reduction of 35% (1,250 jobs) supported each year. This reduction in jobs supported is due to an assumed decrease in Channel 4's expenditure with external producers, as we assume Channel 4 begins making 66% of its content in house, in line with ITV.

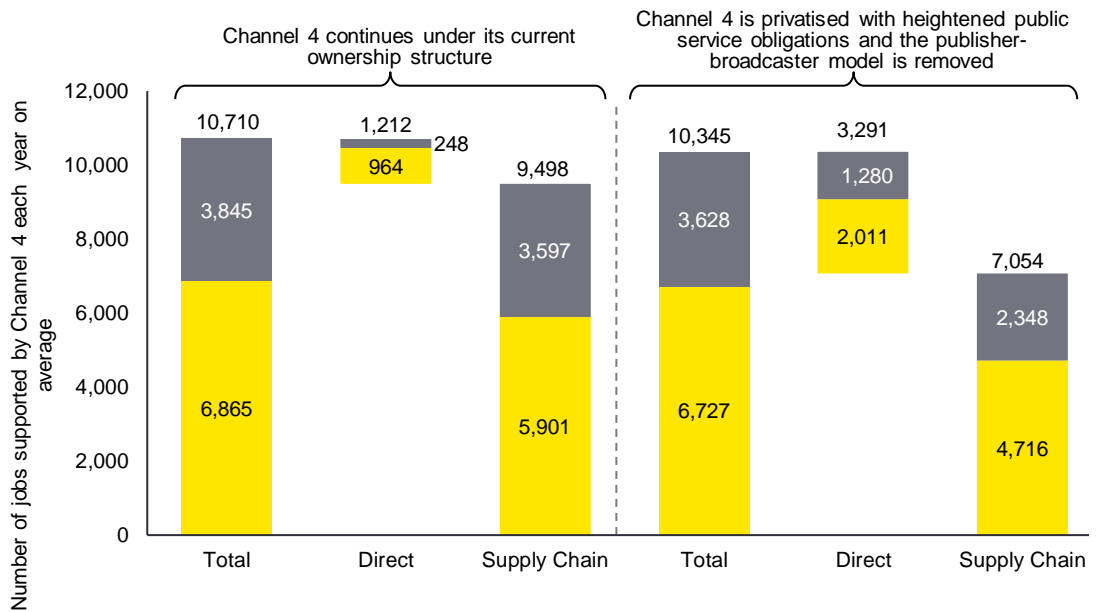
We have assumed that many of the roles that were previously supported by Channel 4 in its supply chain could move in house, and could be supported by Channel 4 directly within its new production and distribution units, either as salaried staff or as freelancers. As a result of ending the publisher-broadcaster model, we estimate that a higher proportion of jobs would be supported by Channel 4 directly (through its new production unit) rather than indirectly (through supporting the external production sector).

Moving jobs in-house to Channel 4 could offer new opportunities for individuals in the production sector to work at a broadcaster. However, concentrating more jobs in house at Channel 4 could have a detrimental impact on external production companies, thereby potentially reducing the diversity of the UK production sector with its mix of broadcaster-owned production studios, large external producers and long-tail of small and medium-sized producers based across the UK. This concentration could have negative effects on diversity of ideas and new talent.

Our analysis is summarised in Figure 5.10.

¹⁰⁸ The number of roles directly supported by Channel 4 in its new production and distribution units could vary. For example, ITV Studios employed 3,893 full-time equivalent employees in 2020, whereas Hat Trick, an independent British production company, employed 54 staff in 2019. However, these benchmarks relate solely to salaried staff employed by ITV Studios and Hat Trick. In practice, the vast majority of roles directly supported by Channel 4 in its production unit would be freelancer staff employed on short term contracts, in line with the approach to staffing taken across the production sector. Channel 4 estimates that less than 5% of production roles that it would directly support would be salaried staff, with the remainder being freelancers. Staff figures have been taken from ITV 2020 annual report and Hat Trick Productions Ltd 2019 annual report and financial statements.

Figure 5-50: Estimate of the jobs supported by Channel 4 each year where Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed



Source: EY analysis of financial data provided by Channel 4. Jobs are average jobs supported each year across the ten-year period. We have assumed that many of the roles which were previously supported by Channel 4 in its supply chain could move in house and could be supported by Channel 4 directly within its new production and distribution units, either as salaried staff or as freelancers.

5.5 Privatisation of Channel 4 could have material negative impacts for external producers

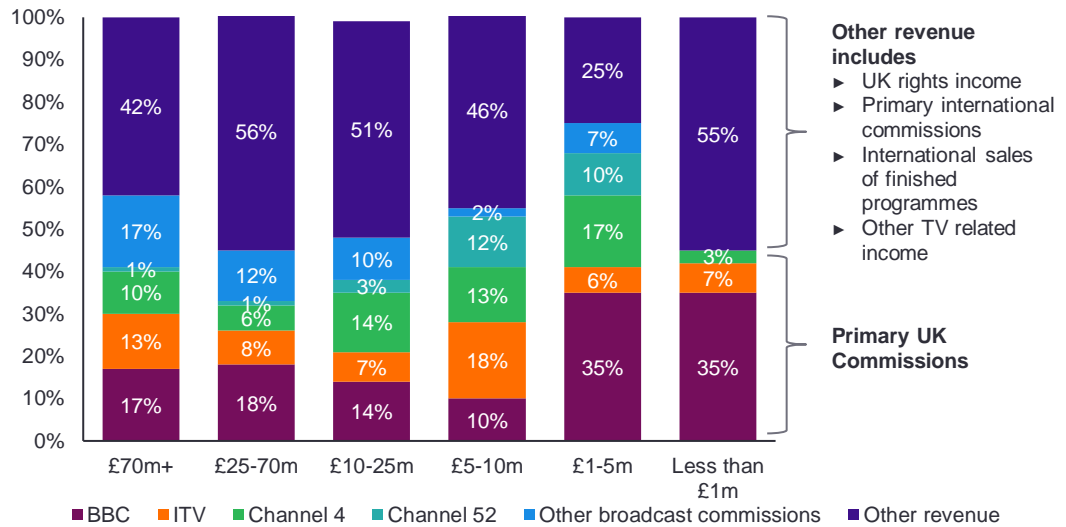
Primary commissions from Channel 4 are responsible for 10% of total TV-related¹⁰⁹ independent production sector revenues and 20% of UK primary commissions.¹¹⁰ This proportion varies by producer though: Channel 4 primary commissions tend to account for a larger proportion of total TV-related revenues for producers with turnover between £25m and £1m, as illustrated in Figure 5.11.¹¹¹ For small producers, with turnover between £1-5m, primary commissions from Channel 4 account for 17% of total TV-related revenues.

¹⁰⁹ Non-TV sector revenue includes corporate production, new media and other non-TV activities.

¹¹⁰ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://www.pact.co.uk/static/7aa7c919-aa4f-455c-a13df5d3375740a9/Oliver-and-Ohlbaum-Pact-Census-2020-FINAL.pdf>

¹¹¹ *Ibid.*

Figure 5-11: Breakdown of total TV-related revenues, primary UK commissions split by broadcaster, by producer turnover¹¹²



Source: *Pact Television Census 2020¹¹³, EY analysis¹¹⁴*

Beyond the initial contribution to primary UK commissions revenue, commissions from Channel 4 also contribute to UK rights income, international sales of finished programmes and other income (international rights excluding finished programmes) as producers exploit the secondary rights to content originally commissioned by Channel 4. As noted in Section 5.3.2, producer rights income from programmes originally commissioned by Channel 4 is estimated to be around £50-70m per year.¹¹⁵

We have carried out indicative analysis to assess the impact on production sector revenues of privatising Channel 4 and removing the publisher-broadcaster model. Our assumptions are consistent with the assumptions we have made to estimate impact on GVA and jobs in Section 5.4.

Our indicative analysis suggests that the external production sector could see a reduction in revenues from primary commissions of up to 9% if the publisher-broadcaster model is removed, compared to a scenario with no change to Channel 4’s current ownership structure and role. Figure 5.12 illustrates the results of our indicative analysis.

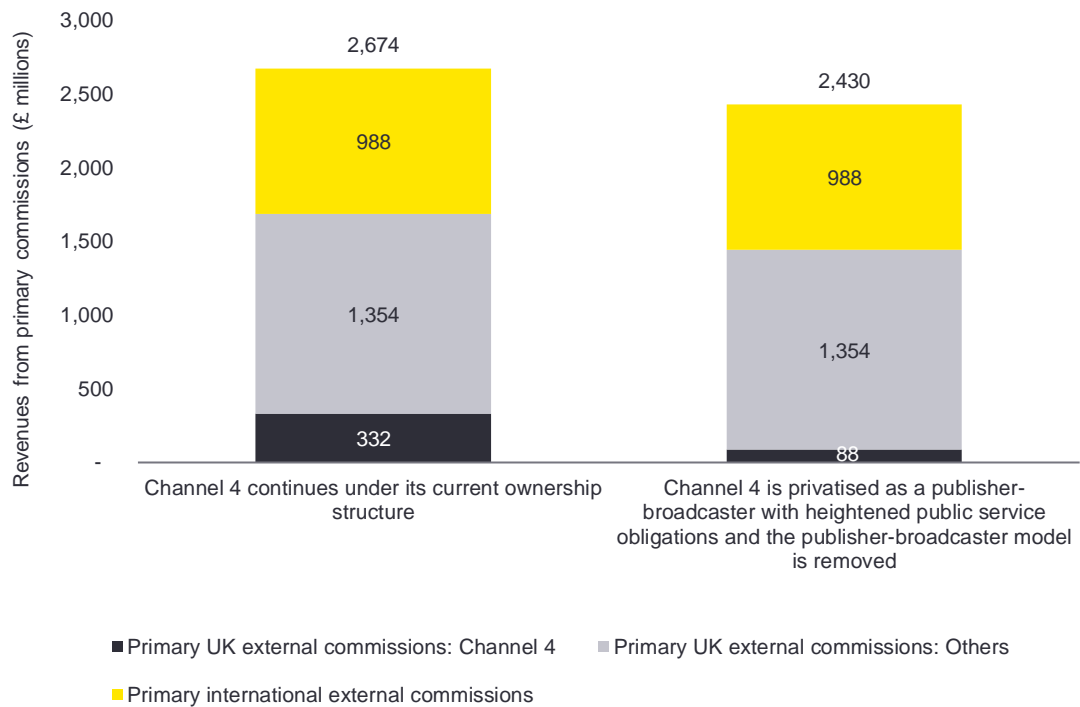
¹¹² Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbee54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

¹¹³ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbee54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

¹¹⁴ Broadcaster spend figures are based on Pact Census, which estimates spend from a survey of producers that covers the latest financial year and may therefore differ from those reported by the broadcasters.

¹¹⁵ Estimate provided by Channel 4.

Figure 5-6: Indicative impact of removing Channel 4’s publisher-broadcaster model on revenues for UK external producers from primary commissions



Source: Pact Television Census 2020¹¹⁶, EY analysis¹¹⁷

In practice, the impact of removing Channel 4’s publisher-broadcaster model on revenues could be more material for some producers than others because, as illustrated in Figure 5.8, Channel 4, along with Channel 5, has the highest share of commissioning with small- and medium-sized producers.

To assess the potential impact on producers of different sizes, our indicative analysis makes two simplifying assumptions:

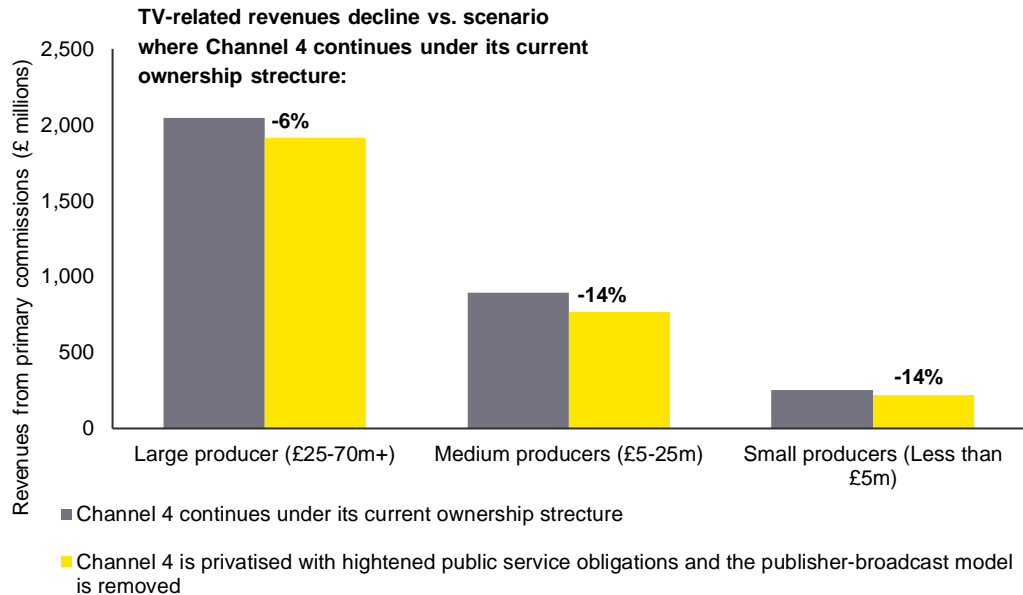
- ▶ Currently, Channel 4 works with a wide range of producers, including a high proportion of small and medium sized producers. The new owner of Channel 4 could choose to reduce risk by concentrating commissioning spend with a smaller number of larger producers which may have greater experience, breadth of connections and financial stability. We therefore assume that, following privatisation, Channel 4’s share of commissioning spend with external producers of different sizes is in line with that of ITV, with a larger share of spend going to large producers, as illustrated in Figure 5.8.
- ▶ We consider that spend from international commissions is more likely to be concentrated with large and medium sized producers. For the purposes of our indicative analysis, we therefore assume that small producers (turnover of less than £5m) do not generate any income from international commissions.

Based on our indicative analysis, we have assumed the impact of removing the publisher-broadcaster model could be most material for small- and medium-sized producers, resulting in a reduction in revenues from primary commissions of between 14% and 16%, as illustrated in Figure 5.13.

¹¹⁶ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbeea54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

¹¹⁷ Broadcaster spend figures are based on Pact Census, which estimates spend from a survey of producers that covers the latest financial year and may therefore differ from those reported by the broadcasters.

Figure 5-13: 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



Source: *Pact Television Census 2020*,¹¹⁸ *EY analysis*¹¹⁹

Additionally, external producers could experience a loss of revenues from secondary rights exploitation of content originally commissioned by Channel 4, in the event that a private owner reduced spend on primary commissions from external producers following the removal of the publisher-broadcaster model.

There could be three main types of impacts of removing Channel 4’s publisher-broadcaster model on producers based in the Nations and Regions:

- ▶ As illustrated in Figure 5.7, Channel 4 accounted for 17% of primary commissions produced in the Nations and Regions by independent production companies in 2019, higher than any other broadcaster except the BBC. As such, if the new owner of Channel 4 were to reduce spend on new commissions as a proportion of revenues in line with ITV, producers in the Nations and Regions could be disproportionately affected, as a reduction in spend by Channel 4 could affect a higher proportion of their revenues than producers in London.
- ▶ As noted in Section 5.3.3, following privatisation, the new owner of Channel 4 could be more likely to reduce share of spend in the Nations and Regions and increase share of spend in London’s more concentrated production market, meaning that producers in the Nations and Regions could be competing for a smaller share of a smaller overall content budget.
- ▶ Additionally, if the publisher-broadcaster model is removed, the new owner of Channel 4 may seek to meet its quotas for production in the Nations and Regions by commissioning from in-house production based outside London, rather than through external producers in the Nations and Regions, again further negatively affecting the regional creative economy.

¹¹⁸ Oliver & Ohlbaum for Pact, (August 2020). *UK Television Production Survey: Financial Census*. <https://static1.squarespace.com/static/5cacbb42a568278dd5430feb/t/5fbbeeaa54627f8187c782360/1606151851172/Oliver-and-Ohlbaum-Pact-Census-2020.pdf>

¹¹⁹ Broadcaster spend figures are based on Pact Census, which estimates spend from a survey of producers that covers the latest financial year and may therefore differ from those reported by the broadcasters.

6. Impact of privatisation on Channel 4's wider social and cultural contribution

Channel 4's remit to act as an alternative voice in UK broadcasting and to take creative risks is intended to ensure that, in addition to its economic contribution, it also contributes socially and culturally to the UK and its Nations and Regions.

As noted in Section 2.2, Channel 4's remit is more extensive than that of the other commercial public service broadcasters and covers areas that are more qualitative and subjective. For policy objectives relating to Channel 4 to be met, it is necessary for Channel 4 to abide by the spirit of the remit, as well as meeting its quota requirements.

Following privatisation, a new owner could be less likely to take the same risks, as public service obligations would need to be balanced with the need to generate value for private shareholders. The new owner of Channel 4 could be incentivised to prioritise mainstream content that it expects to be commercially successful to reduce costs and increase profits. Given that many aspects of Channel 4's public service obligations are qualitative, it could be difficult to express or 'codify' these in such a way that a new private owner continues to take risks when delivering its public service obligations.

In this section, we explore three social and cultural implications of privatisation:

- ▶ Impact on audiences.
- ▶ Impact on reflecting UK culture and representing UK culture to the rest of the world.
- ▶ Impact on talent development.

6.1 The new owner of Channel 4 could be incentivised to cater for a mass market audience

6.1.1 Channel 4's remit is to be an alternative voice in UK broadcasting

Channel 4 was created during the 1980s with a purpose to increase the plurality of voices in UK broadcasting. Since then, Channel 4 has provided an 'alternative voice', with a remit to take risks in the format, subject matter and talent used in Channel 4 content.¹²⁰ Its remit to take creative risks also applies to Film4, through which Channel 4 "manages the risks of early-stage investment by backing talent whose interesting ideas, commitment and passion it reflects".¹²¹

Channel 4 is generally perceived by the regulator, audiences and industry professionals to fulfil its remit:

- ▶ Ofcom's most recent review of Channel 4's performance against its remit and quotas, published in 2020, concluded that Channel 4 "largely met its media content duties between 2014-2018".¹²²

¹²⁰ Channel 4, (2020). Taking Risks, Challenging The Mainstream https://www.channel4.com/media/documents/press/news/C4_Risk_Report_Singlepages_FOR_NINA.pdf#:~:text=Channel%204%E2%80%99s%20not-for-profit%20status%20means%20it%20can%20take.and%20formats%20which%20have%20driven%20UK%20export%20earnings.

¹²¹ Channel 4, (2020). Taking Risks, Challenging The Mainstream https://www.channel4.com/media/documents/press/news/C4_Risk_Report_Singlepages_FOR_NINA.pdf#:~:text=Channel%204%E2%80%99s%20not-for-profit%20status%20means%20it%20can%20take.and%20formats%20which%20have%20driven%20UK%20export%20earnings.

¹²² Ofcom, (Feb 2020). Channel 4 Corporation's performance in delivering its media content duties 2014-18. https://www.ofcom.org.uk/data/assets/pdf_file/0030/192099/channel-4-review-2014-18.pdf

- ▶ Surveys of audience sentiment suggest that Channel 4 continues to produce distinctive content when compared to other public service broadcasters. Channel 4 performed particularly highly against the following statements in Ofcom's research:¹²³ "it shows programmes with new/ different approaches"; "The style of programmes is different to what I'd expect on other channels".
- ▶ This perception is echoed by industry professionals. For example, Pathe UK's Managing Director has described Film4 as "distinct...younger, edgier and more out there".¹²⁴

Case studies: Channel 4 takes risks with its content across television and film

Paralympics coverage

Channel 4 has broadcast the Paralympics since 2012. Channel 4 saw the Games as a creative and commercial risk: David Abraham, a former chief executive of Channel 4, stated that: "When we took on the Paralympic Games, the notion that we could position that event as if it was genuinely equal to the Olympic Games to the British public was an aspiration that felt incredibly risky and not highly likely to succeed. But [...] we did actually manage to complete the Games for the entire nation to see disability in a new way".¹²⁵ Ex-chair of Channel 4, Lord Burns, suggested that it is unlikely a new private owner would continue to broadcast the Paralympics at the same scale; "Certainly not with the same determination and investment. It is a commercially riskier activity".¹²⁶ If the new owner of Channel 4 were to weaken its commitment to covering the Paralympics to refocus investment in less commercially risky content following privatisation, both on-screen and off-screen representation of disabled people could reduce. For the Tokyo Paralympic Games, Channel 4 announced it would increase the number of disabled senior production roles and ensure a line-up of over 70% disabled on-screen talent.¹²⁷

It's a Sin

Channel 4 takes risks with the subject matter of its content, catering to audiences that may otherwise be underserved. *It's a Sin* was released in 2021 and documents the story of five friends living in London during the HIV/Aids crisis during the 1980s. Its creator, Russell T Davies has pointed to the role Channel 4's remit played in the shows inception, saying: "Channel 4 exists to make dramas like *It's a Sin*".¹²⁸ The show has received critical acclaim and broke Channel 4's streaming records, as All 4's biggest ever instant box set and the broadcaster's third biggest series.¹²⁹

6.1.2 Channel 4 appeals to younger audiences

Channel 4 caters for audiences that public service media can struggle to reach, such as younger audiences. This directive is stated within Channel 4's remit, requiring Channel 4 to

¹²³Ofcom, (Feb 2020). Channel 4 Corporation's performance in delivering its media content duties 2014-18. https://www.ofcom.org.uk/data/assets/pdf_file/0030/192099/channel-4-review-2014-18.pdf

¹²⁴ Channel 4, (2020). Taking Risks, Challenging The Mainstream https://www.channel4.com/media/documents/press/news/C4_Risk_Report_Singlepages_FOR_NINA.pdf#:~:text=Channel%204%E2%80%99s%20not-for-profit%20status%20means%20it%20can%20take.and%20formats%20which%20have%20driven%20UK%20export%20earnings.

¹²⁵ The Drum, (June 2014). *London Paralympics coverage felt "incredibly risky" and "wasn't likely to succeed" admits Channel 4 CEO David Abraham while talking creative innovation.* <https://www.thedrum.com/news/2014/06/05/london-paralympics-coverage-felt-incredibly-risky-and-wasnt-likely-succeed-admits>

¹²⁶ The Guardian, (August 2021). <https://www.theguardian.com/media/2021/aug/22/new-owner-could-cut-channel-4-paralympics-coverage-says-ex-chairman>

¹²⁷ Channel 4, (August 2021) Channel 4 coverage of the Tokyo 2020 Paralympic Games. <https://www.channel4.com/press/news/channel-4-coverage-tokyo-2020-paralympic-games>

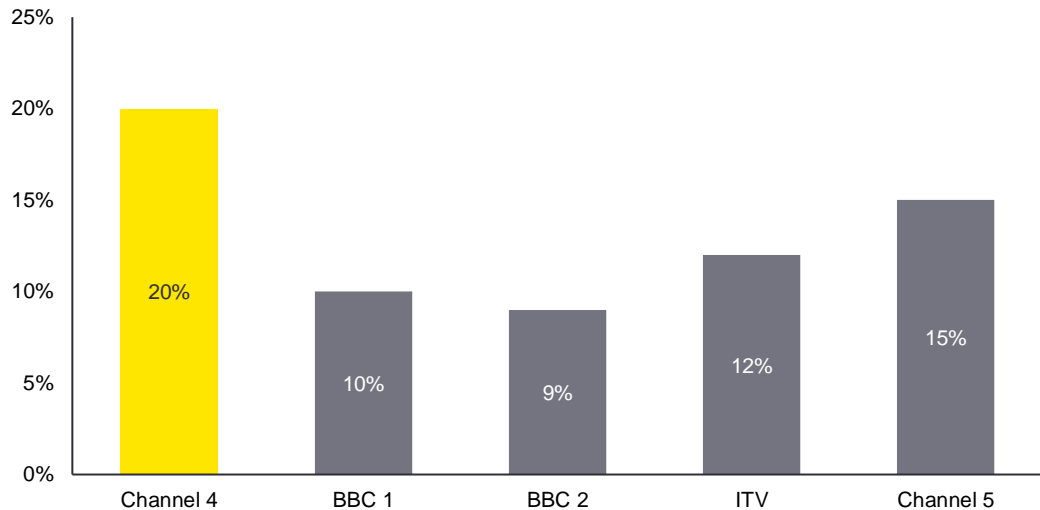
¹²⁸ Huffington Post, (June 2021). https://www.huffingtonpost.co.uk/entry/russell-t-davies-its-a-sin-channel-4-privatisation_uk_60d6fe3ee4b072e7c9876f96

¹²⁹ Channel 4 Press, (February 2021). <https://www.channel4.com/press/news/acclaimed-new-drama-its-sin-drives-record-all-4-streaming>

deliver content that caters to the “tastes and interests of older children and young adults”.¹³⁰ Its focus on appealing to younger audiences means that young people are targeted by more content with a UK focus, strengthening the universality of the public service media system.

In 2020, Channel 4 had the highest proportion of under-35's out of any public service broadcast audience, at 20%.¹³¹

Figure 6-1: Under 35s as a proportion of total audience¹³²



Source: Channel 4 (2020)

Channel 4 also attracts younger audiences on All 4, its video on demand service, where 16-34-year olds now account for just under half of monthly average viewers.¹³³

6.1.3 Channel 4 appeals to ethnically diverse audiences

Channel 4 is also required by its remit to appeal to the interests of a culturally diverse society and therefore places a focus on commissioning content that appeals to ethnically diverse audiences.

For example, some of Channel 4's recent high-profile commissions, including *The Big Narstie Show* and *Take Your Knee Off My Neck*, seek to improve diversity through increasing on-screen representation of Black people. *The Big Narstie Show*, first broadcast in 2018, is a late-night entertainment show hosted by grime musician Big Narstie and stand-up comedian Mo Gilligan. In 2018, the programme's share of viewers aged 16-24 was up 94% above slot average, up 129% on share for ethnically diverse audiences, and up 144% on share for Black audiences.

Channel 4's initiatives to cater for ethnically diverse audiences have driven audience share, with viewing by ethnically diverse audiences increasing 2% year-on-year in 2020.¹³⁴ Channel

¹³⁰ Ofcom, (2020). Channel 4 Corporation's performance in delivering its media content duties 2014-2018

https://www.ofcom.org.uk/_data/assets/pdf_file/0030/192099/channel-4-review-2014-18.pdf

¹³¹ Ofcom, (2019). Media Nations UK 2019. https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf#:~:text=The%20Media%20Nations%20report%20is%20a%20reference%20publication,launched%20in%20July%202019%3A%20Small%20Screen%3A%20Big%20Debate

¹³² Ofcom, (2019). Media Nations UK 2019. https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf#:~:text=The%20Media%20Nations%20report%20is%20a%20reference%20publication,launched%20in%20July%202019%3A%20Small%20Screen%3A%20Big%20Debate

¹³³ Channel 4, (June 2021). Channel 4 Annual Report 2020.

https://annualreport.channel4.com/assets/pdf/Overview_Channel4_AR20_ACC.pdf

¹³⁴ Channel 4, (June 2021). Channel 4 Annual Report 2020.

https://annualreport.channel4.com/assets/pdf/Overview_Channel4_AR20_ACC.pdf

4's news content also profiles higher with audiences from ethnically diverse backgrounds than news programming from other public service broadcasters, in line with its remit.¹³⁵

6.1.4 Targeting mainstream audiences can be more commercially attractive for broadcasters

There has been significant fragmentation of audiences in recent years and a wide range of different content providers operate in the UK market. However, despite this fragmentation, it still makes most commercial sense for television broadcasters to target large, mass market audiences to attract television advertising revenues.

Channel 4 public service obligations are intended to prevent it targeting a mass market, mainstream audience. It is required by its remit to offer an alternative voice and to target younger audiences. These requirements may not be commercially optimal; for example, younger people watch less television than other audiences and it can be difficult to attract them. However, Channel 4's structure as a publicly-owned, not-for-profit broadcaster is intended to align with its remit; it does not need to generate returns for shareholders so it can act in a way that may not be commercially optimal.

Following a change in ownership, it may be more difficult to ensure that Channel 4 continues to take risks and to maintain its role in providing an alternative voice. The new owner could be more likely to take a commercial approach to delivering Channel 4's remit by creating content that appeals more to a mainstream audience in order to provide more likelihood of commercial success. The difficulty in defining what determines content to be innovative or to have distinctive character means it could be difficult to limit the extent to which a private owner may tend towards catering for a mainstream audience.

A loss of Channel 4's distinctiveness from other public service broadcasters could undermine its purpose to bring greater plurality of voices to the broadcasting ecosystem. Plurality provides choice for viewers and ensures that all audiences are served. This could mean that audience segments that Channel 4 currently caters for, such as younger and ethnically diverse audiences, are no longer served as well by the system of public service media, undermining the role of public service broadcasting in "securing types of programming which are important to society, creating shared national experiences and reflecting the UK back to itself in all its diversity".¹³⁶

6.2 A change of ownership could result in a dilution of UK content

6.2.1 Channel 4's remit is intended to ensure it reflects a diverse view of UK culture

A key objective of public service media is for broadcasters to represent the UK, in its entirety, back to itself. This requirement is specified in legislation: "They (public service broadcasters) must deliver high quality UK content, which informs, educates and entertains, as well as reflecting the wide-ranging UK culture".¹³⁷

The diversity of the UK broadcasting ecosystem means that each public service broadcaster plays a distinct role in delivering on this objective. Channel 4 specifically "promotes a diversity

¹³⁵ Ofcom, (2019). Media Nations UK 2019. https://www.ofcom.org.uk/data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf#:~:text=The%20Media%20Nations%20report%20is%20a%20reference%20publication,launched%20in%20July%202019%3A%20Small%20Screen%3A%20Big%20Debate

¹³⁶ 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

¹³⁷ Ofcom, (December 2020). *Small Screen: Big Debate Consultation*. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

of content and perspectives which appeals to younger audiences".¹³⁸ To fulfil its remit, Channel 4 has to take risks and focus on reflecting alternative aspects of UK culture.

Ofcom's five-year review of Channel 4 found that the Channel 4 had "outperformed the other public service broadcasters in tackling issues that other broadcasters would not",¹³⁹ fulfilling its remit to provide an alternative view of UK culture. As such, losing Channel 4's unique voice could undermine the objective of public service media of representing wide-ranging UK culture.

As noted in Section 5.1, the Codes of Practice between independent producers and public service broadcasters set out that independent production companies retain the rights to their programmes, allowing them to generate additional revenue from their intellectual property.¹⁴⁰ Channel 4 signed a new Code of Practice with Pact in 2019, giving independent producers full control and ownership of secondary revenues.¹⁴¹ In addition to Channel 4's remit to create UK-based content, this prohibition from exploiting secondary rights from content commissioned from external producers, combined with its status as a publisher-broadcaster, means that Channel 4 has a reduced incentive to commission content intended for global redistribution. As a result, Channel 4 produces content targeted towards appealing to and reflecting a local UK audience.

Case studies: Content with a strong UK focus

Shows such as *Derry Girls*, *Gogglebox* and *Educating Essex* aim to reflect the diversity of the Nations and Regions as well as the diversity of communities across the country.

Derry Girls

Derry Girls is a comedy set during of The Troubles in Northern Ireland and first aired in 2018. Across its three seasons, *Derry Girls* has been won a variety of awards, including 'Best Comedy' at the Irish Film and Television Awards in 2018, and 'Best Comedy Writing on Television' at the British Screenwriter's Awards in the same year.¹⁴² *Derry Girls* is told from the perspective of teenagers, catering to audiences described in Channel 4's remit. The show has found particular popularity with Northern Irish viewers, with viewing share more than 40% higher¹⁴³ in the region compared with the rest of the UK. It is often the case that local programming attracts popularity with the audiences it reflects. This instance was notable given that Channel 4's declining viewing share in this region, demonstrating that regional programming is powerful in appealing to viewers that may be more difficult to reach.

Gogglebox

Gogglebox "provides a light-touch social portrait of the UK",¹⁴⁴ consisting of a regular, diverse cast of ordinary people from all around the country and from a range of backgrounds and communities watching and commenting on TV. The show's format has been replicated all

¹³⁸ Ofcom, (December 2020). Small Screen: Big Debate Consultation.

https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

¹³⁹ Ofcom, (February 2020). Channel 4 Corporation's performance in delivering its media content duties 2014-2018. https://www.ofcom.org.uk/_data/assets/pdf_file/0030/192099/channel-4-review-2014-18.pdf

¹⁴⁰ PACT. Terms of Trade: What are they and why should you care?

¹⁴¹ Ofcom, (February 2020). Small Screen: Big Debate – a five-year review of Public Service Broadcasting (2014-2018). https://www.ofcom.org.uk/_data/assets/pdf_file/0013/192100/psb-five-year-review.pdf

¹⁴² IMDB. *Derry Girls* Awards. <https://www.imdb.com/title/tt7120662/awards>

¹⁴³ Enders Analysis, (July 2021). Programming outside the London bubble: Regions to be cheerful

¹⁴⁴ Channel 4, (2014). Taking Risks, Challenging the Mainstream.

https://www.channel4.com/media/documents/press/news/C4_Risk_Report_Singlepages_FOR_NINA.pdf#:~:text=Innovation%20and%20risk-taking%20are%20central%20to%20Channel%20%E2%80%99s,educative%20value%3B%20and%20%E2%80%94%20exhibits%20a%20distinctive%20character.%E2%80%9D

over the world and in 2019 was one of the top-25 unscripted formats globally.¹⁴⁵ Gross international export revenues are worth nearly £8m.¹⁴⁶

Educating Essex

Channel 4's *Educating Essex* pioneered the use of rig technology to provide an "honest portrayal of British school life".¹⁴⁷ Remotely operated camera rigs are used to attain a view of people's behaviour in the school. The programme has been replicated throughout the Nations and Regions, with spin-off series located in Yorkshire, the East End, Cardiff and Greater Manchester. The *Educating* format has been critically acclaimed, winning a BAFTA for Best Reality and Constructed Factual Show.

Although Channel 4 does not generate revenues from the redistribution of its content, it is often exported when sold by external production companies. UK content benefits from a large English-speaking audience overseas, with 'local' content also gaining popularity overseas. In 2020, British TV exports grew by 6% to £1.48bn.¹⁴⁸

Not only does this provide economic stimulus, boosting UK exports and production sector revenues, but it also contributes to the representation of the UK to the rest of the world. When Channel 4 content is consumed overseas, the diversity of UK culture that the broadcaster reflects is also represented to the rest of the world. A previous EY report for Ofcom found that "UK [public service broadcasters] are perceived to perform strongly in reflecting national culture through their content".¹⁴⁹

In contrast, multinational streaming services such as Netflix, Amazon Prime Video and Disney have a stronger incentive to create and distribute content aimed towards global audiences. Netflix currently has 190 million paid members, while Prime Video and Disney have another 150 million and 95 million members respectively.¹⁵⁰ While they all invest in some local content, global content is a much more cost-effective way to cater for their large global audiences and comprises the majority of their libraries. For multinationals, their incentives often lead them to commission content that appeals outside any one specific market, meaning that content commissioned by multinationals can present a more internationalised culture.

This is not to say that multinationals do not produce local content, but local content constitutes a much smaller proportion of their content than for public service broadcasters. 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 content¹⁵¹ (equivalent to 0.6% of the contribution of the public service broadcasters). Additionally, when multinationals invest in local UK content, it often reflects the UK less strongly: media analysts found that when *Black*

¹⁴⁵ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

¹⁴⁶ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

¹⁴⁷ Channel 4, (2014). Taking Risks, Challenging the Mainstream. https://www.channel4.com/media/documents/press/news/C4_Risk_Report_Singlepages_FOR_NINA.pdf#:~:text=Innovation%20and%20risk-taking%20are%20central%20to%20Channel%204%E2%80%99s,educative%20value%3B%20and%20%E2%80%94%20exhibits%20a%20distinctive%20character.%E2%80%9D

¹⁴⁸ PACT, (November 2020). UK TV Exports Report. <https://www.3vision.tv/news-insights/uk-tv-export-report-2020>

¹⁴⁹ EY for Ofcom, (October 2020). *International perspectives on public service broadcasting: EY report for Ofcom*. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0026/204587/international-perspectives-on-psb.pdf

¹⁵⁰ EY, (July 2021). How to incentivise new provision of UK public service media. https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0025/221956/annex-3-statement-future-of-public-service-media.pdf

¹⁵¹ 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

Mirror moved from Channel 4 to Netflix, it saw a fall in references to British terms, expressions, reference points or idioms per hour of programming.¹⁵²

Using the same methodology, media analysts found that Netflix-commissioned *The Crown* contains “relatively few British terms, expressions, reference points or idioms”, once character names are ignored. Although *The Crown* focuses on the British monarchy, analysts found it demonstrates a lack of British terminology and reference when compared to some of Channel 4's shows such as *Peep Show* and *Skins*.¹⁵³ The analysis found the same applies to *Sex Education*, a Netflix programme filmed in UK but culturally ambiguous, with just one more reference to UK culture than US culture during the first season.¹⁵⁴

6.2.2 To make the sale of Channel 4 attractive, a private owner may be more incentivised to produce content that would attract a global audience

DCMS is consulting on weakening or removing Channel 4's status as a publisher-broadcaster to allow it to own intellectual property and diversify its revenues. The potential for the new private owner of Channel 4 to make its own programmes and to generate revenue from the sale of secondary rights could make the sale more attractive to prospective buyers. This could also shift the incentives that determine content investment decisions. To increase revenue from secondary rights exploitation, the new private owner of Channel 4 could be more likely to create content that appeals to the highest number of people, focusing therefore more on a global audience.

A shift in Channel 4's content strategy towards appealing more to global audiences may result in a reduction in the diversity of the UK that is reflected on screens. As discussed in Section 6.2.1, when shows are produced by multinationals catering for large global audiences, UK culture is may be diluted, meaning that the new private owner of Channel 4 may be more likely to focus on a mainstream interpretation of UK culture. A reduction of representation of the Nations and Regions and different cultures within the UK could compromise the delivery Channel 4's objective of “reflecting wide-ranging UK culture”.¹⁵⁵

A dilution of UK culture in Channel 4's content could weaken the role that UK public service broadcasters play in representing the UK to the rest of the world. The perception of the UK through the consumption of UK content has consequences wider than the UK's media sector. British Council research has demonstrated how the perception of the UK's world leading arts and culture contributes to how it is trusted internationally.¹⁵⁶ The British Council found that trust contributes to economic prosperity; “high-trust relationships have lower transaction costs”, thus stimulating investment, production and trade.

6.3 Private ownership could change Channel 4's approach to talent investment

6.3.1 Channel 4's investment in talent focuses on underrepresented groups

Channel 4 talent investment supports both people within Channel 4 and people across the wider creative sector: Channel 4 spent £650k on its 4Talent training and development initiatives in 2020 and supported wider industry opportunities by investing £2.2m in other external training grants. This is a directive of its current remit: the Communications Act 2003 states that Channel 4 must “support the development of people with creative talent”¹⁵⁷ across Channel 4 and Film4.

¹⁵² Enders Analysis, (March 2021). Outsourcing culture: When British shows aren't 'British'.

<https://www.endersanalysis.com/reports/outsourcing-culture-when-british-shows-arent-british>

¹⁵³ Enders Analysis, (March 2021). Outsourcing culture: When British shows aren't 'British'.

<https://www.endersanalysis.com/reports/outsourcing-culture-when-british-shows-arent-british>

¹⁵⁴ Enders Analysis, (March 2021). Outsourcing culture: When British shows aren't 'British'.

<https://www.endersanalysis.com/reports/outsourcing-culture-when-british-shows-arent-british>

¹⁵⁵ Ofcom, (December 2020). Small Screen: Big Debate Consultation.

https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

¹⁵⁶ British Council, (2018). The value of trust. <https://www.britishcouncil.org/research-policy-insight/policy-reports/the-value-of-trust#:~:text=British%20Council.%20June%202018%20The%20Value%20of%20Trust,survey%20of%20almost%200%2C000%20respondents%20in%20G20%20countries.>

¹⁵⁷ The Communications Act 2003. <https://www.legislation.gov.uk/ukpga/2003/21/contents>

Channel 4 is currently deemed to meet its remit in this area. In its most recent five-year review, Ofcom concluded that Channel 4 fulfilled its duty to support the development of people with creative talent and had “implemented various initiatives to support a more diverse pipeline of talent”.

Channel 4's talent strategy is geared towards improving social mobility in broadcasting and film, providing underrepresented groups with the skills and opportunities to break into the sector. Underrepresented groups Channel 4 works with include those with disabilities, from ethnically diverse backgrounds, from low income backgrounds and from the Nations and Regions. Ofcom's objectives for public service media highlight the importance of increasing representation both on and off-screen.

Investment in talent has results in a virtuous circle, attracting inwards investment into the UK. Channel 4's investment in training has additional social and economic impacts, such as a more skilled and productive workforce in the wider creative sector.

6.3.2 Channel 4 runs several on and off-screen initiatives to support talent development

Channel 4 supports emerging talent through a range of commitments and initiatives. To further the development of on-screen talent in underrepresented groups, Channel 4's Commissioning Diversity Guidelines include a requirement for production partners “to ensure that programmes reflect a variety of communities and backgrounds through their subject matter”.¹⁵⁸ Channel 4 monitors delivery against guidelines and supports the widening of talent pools to ensure they are met.

As part of its strategy to improve on-screen and off-screen diversity, Channel 4 has also announced a dedicated day of programmes, ‘Black to Front’, which will showcase Black talent and is due to air in September 2021.¹⁵⁹ The day aims to increase representation and ensure authentic portrayal of Black talent, voices and narratives. In addition to broadcasting existing shows in both scripted and unscripted genres, Channel 4 will launch two new shows led by Black talent, including new comedy content.¹⁶⁰

Channel 4 invests in a wide range of training programmes to develop off-screen talent and requires that its partners also ensure “representation at all levels of their production”.¹⁶¹ Over 5,300 people have been involved in Channel 4's training initiatives since 2015,¹⁶² including:

- ▶ **Production Training Scheme:** The Production Training Scheme is a 12-month salaried scheme placing trainees at independent production companies. The scheme is focused towards improving representation of people with disabilities, people from ethnically diverse communities, and people from disadvantaged background. The scheme has a strong record of participants entering the broadcast industry; of the 2018/19 cohort, 94% went on to get full-time roles in the industry.¹⁶³

The Production Training Scheme and the Paralympics

The Production Training Scheme focuses on disabled talent during years where the Paralympics is broadcast on Channel 4. Disabled people are widely underrepresented in the broadcasting industry, comprising just 6% of employees in the industry compares to a UK labour market average of 18%.¹⁶⁴ The scheme aims to improve diversity in the

¹⁵⁸ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%20-%20Channel%20%27s%20contribution%20to%20the%20UK.pdf>

¹⁵⁹ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%20-%20Channel%20%27s%20contribution%20to%20the%20UK.pdf>

¹⁶⁰ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%20-%20Channel%20%27s%20contribution%20to%20the%20UK.pdf>

¹⁶¹ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%20-%20Channel%20%27s%20contribution%20to%20the%20UK.pdf>

¹⁶² Channel 4, (Autumn 2020). 4Skills Case Studies. <https://assets-corporate.channel4.com/flysystem/s3/2020-10/Channel%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20%20%28Final%20Accessible%29.pdf>

¹⁶³ Channel 4, (Autumn 2020). 4Skills Case Studies. <https://assets-corporate.channel4.com/flysystem/s3/2020-10/Channel%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20%20%28Final%20Accessible%29.pdf>

¹⁶⁴ [Diversity and equal opportunities in television \(ofcom.org.uk\)](https://www.ofcom.gov.uk/consult/condocs/diversity/diversityandequalopportunitiesintv/condocs/diversityandequalopportunitiesintv.pdf)

broadcasting industry, supporting disabled talent to apply for roles in the Paralympics production scheme.

- ▶ **Channel 4 apprenticeships:** The apprenticeship scheme provides participants with a 12-24-month placement in departments across its Leeds, London, Manchester, Glasgow or Bristol offices.¹⁶⁵
- ▶ **4Playwrights:** The scheme awards six £10,000 bursaries a year to new theatre writers.¹⁶⁶
- ▶ **4Stories:** Channel 4's talent initiative, 4Stories, is aimed at investing in the next generation of writers and directors.
- ▶ **4Screenwriting:** A course to provide writers new to television drama an "insight into how the industry works",¹⁶⁷ working with them as they deliver an original script. Previous graduates have gone on to write for *Shameless* and *Indian Summers* for Channel 4.
- ▶ **4Studio Paid Placements:** This scheme offers placements with Channel 4's digital studio and is focused on creating opportunities for young people from diverse backgrounds who may not typically consider a career in broadcasting.¹⁶⁸
- ▶ **First Cut:** A scheme, launched in 2007, to provide a spotlight to original documentaries and up-and-coming filmmakers.¹⁶⁹
- ▶ **Spotlight on Directors:** Channel 4 provides opportunities to 40 programme directors from underrepresented groups across 2017 and 2018 in a bid to improve diversity.
- ▶ **Aspiring Solicitors:** Channel 4's Legal and Compliance department provides mentoring and work experience to diverse candidates hoping to pursue a career in the sector. Channel 4 provides at least 50% of the places to candidates outside of London.¹⁷⁰
- ▶ **Factual Fast Track development programme:** In May 2020, the scheme provided six producers from Wales, the opportunity to take part in paid placements, training and commissioner and peer mentoring, funded by Channel 4, BBC Cymru Wales and S4C.¹⁷¹
- ▶ **Commissioning Mentor Network:** The network focuses on identifying diverse rising stars and helps to accelerate their progression to more senior posts in commissioning and production. Over 200 mentees have been matched since launched in 2015.¹⁷²

¹⁶⁵ Channel 4, (Autumn 2020). 4Skills Case Studies. https://assets-corporate.channel4.com/_flysystem/s3/2020-10/Channel%20-%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%20-%20-%2028Final%20Accessible%29.pdf

¹⁶⁶ Channel 4, (Autumn 2020). 4Skills Case Studies. https://assets-corporate.channel4.com/_flysystem/s3/2020-10/Channel%20-%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%20-%20-%2028Final%20Accessible%29.pdf

¹⁶⁷ Channel 4, (Autumn 2020). 4Skills Case Studies. https://assets-corporate.channel4.com/_flysystem/s3/2020-10/Channel%20-%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%20-%20-%2028Final%20Accessible%29.pdf

¹⁶⁸ Channel 4, (Autumn 2020). 4Skills Case Studies. https://assets-corporate.channel4.com/_flysystem/s3/2020-10/Channel%20-%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%20-%20-%2028Final%20Accessible%29.pdf

¹⁶⁹ Channel 4, (Autumn 2020). 4Skills Case Studies. https://assets-corporate.channel4.com/_flysystem/s3/2020-10/Channel%20-%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%20-%20-%2028Final%20Accessible%29.pdf

¹⁷⁰ Channel 4 Corporate. 4 Skills: Supporting new talent. <https://www.channel4.com/corporate/about-4/what-we-do/supporting-new-talent>

¹⁷¹ Channel 4 Corporate. 4 Skills: Supporting new talent. <https://www.channel4.com/corporate/about-4/what-we-do/supporting-new-talent>

¹⁷² Channel 4, (Autumn 2020). 4Skills Case Studies. https://assets-corporate.channel4.com/_flysystem/s3/2020-10/Channel%20-%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%20-%20-%2028Final%20Accessible%29.pdf

- ▶ **Investigative Journalism Scheme:** Channel 4's partnership with De Montford University for its MA degree in Investigative Journalists provides training for future journalists. Over 20 graduates have passed through the scheme and have secured journalism jobs.¹⁷³

Many of these training and development programmes are not designed to benefit Channel 4 directly; instead, they play an important role supporting the wider creative sector.

6.3.3 A private owner of Channel 4 could choose to reduce risk by working with more established talent

Nurturing talent from an early stage carries a level of commercial risk. When discussing the impact of public service broadcasters on the wider market, a Commercial Director from a multinational media company explained: "They [the public service broadcasters] can afford to invest in nurturing and developing talent at an early stage, which can be more difficult for commercial organisations".¹⁷⁴

Although there are many examples of Channel 4's innovative content achieving commercial success, commercial success is not the sole objective of commissioners in a not-for-profit public service organisation, which provides commissioners with more freedom to tell unique stories. Speaking about Film4, director Kevin MacDonald said "their willingness to back passionate and committed directors to make out-there and extreme films is rare anywhere else in the English-speaking film industry".¹⁷⁵ In 2016, Film4 updated its commitment to taking risks, announcing that it would "invest boldly"¹⁷⁶ in commercial projects to counteract any losses made in riskier projects. The need for the cross-subsidisation of these 'riskier' projects demonstrates that they may not be attractive under private ownership. Instead, a new owner may be more likely to use proven talent rather than nurture new talent both on and off-screen.

A new private owner of Channel 4 could choose to invest in industry training and development schemes. For example, in 2020 Netflix entered into a partnership with industry body ScreenSkills to encourage young people to join the film and television industries through its investment in apprenticeship schemes.¹⁷⁷

However, there is no guarantee that a commitment to training would be maintained to the same extent, and in the same form, as currently and it may be difficult to mandate such in an effective way, given the remit does not specify the level of funding or number of initiatives required to satisfy the direction to support the development of people with creative talent. The remit also does not specify that these initiatives should be targeted at underrepresented groups or people in the Nations and Regions, which is Channel 4's current focus for many of its schemes.

6.4 Updating regulation to preserve Channel 4's current contribution could involve significant intervention

Updating regulation, as outlined above, and enforcing these requirements on the new private owner of Channel 4 would involve a significantly higher level of intervention for Channel 4 compared to the other commercial public service broadcasters. As set out in Section 2.2, ITV

¹⁷³ Channel 4, (Autumn 2020). 4Skills Case Studies. <https://assets-corporate.channel4.com/flysystem/s3/2020-10/Channel%204%20-%204Skills%20Case%20Studies%20Booklet%20-%20Autumn%202020%20-%2028Final%20Accessible%29.pdf>

¹⁷⁴ EY (October 2020). International perspectives on public service broadcasting.

https://www.smallscreenbigdebate.co.uk/data/assets/pdf_file/0026/204587/international-perspectives-on-psb.pdf

¹⁷⁵ Channel 4, (2014). Taking Risks, Challenging the Mainstream.

https://www.channel4.com/media/documents/press/news/C4_Risk_Report_Singlepages_FOR_NINA.pdf#:~:text=Innovation%20and%20risk-taking%20are%20central%20to%20Channel%204%E2%80%99s,educative%20value%3B%20and%20%E2%80%94%20exhibits%20a%20distinctive%20character.%E2%80%9D

¹⁷⁶ EY, (April 2021). Channel 4's contribution to the UK. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

¹⁷⁷ Screen Skills, (January 2020). <https://www.screenskills.com/about-us/press-releases/warner-bros-and-netflix-join-screenskills-in-innovative-apprenticeship-pilot/>

and Channel 5 are subject to a regulatory regime that is much more light touch in comparison.¹⁷⁸

Additionally, public service media obligations for broadcasters have historically been weakened rather than strengthened, for example:

- ▶ **ITV's** public service media obligations have been gradually weakened since 2005. Quotas for regional non-news and news content were reduced in 2005 and 2007 respectively. In 2009, ITV's quotas were further reduced due to the economic downturn. This included a reduction in its Outside of London quotas and a further reduction in news and current affairs quotas.
- ▶ **Channel 5's** quotas were reduced between 2009-2010. News quotas fell by over a third, while originations fell from 53% to 50%. In June 2021, Channel 5 requested a change to its licence conditions to remove the requirement to include at least one news programme in the mid-evening and to reduce its requirement to provide peak time news.
- ▶ **Local TV providers** have requested several amendments to their licence conditions since the sector was established in 2012/2013.

Regulating to maintain Channel 4's current contribution may not be attractive to a potential buyer of Channel 4.

¹⁷⁸ Ofcom, (July 2021). *Recommendations to Government on the future of public service media: Annex 8*. https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0031/208768/annex-8-psb-regulatory-framework.pdf

Annex A Summary of regulation for the commercial public service broadcasters¹⁷⁹

	ITV	Channel 4	Channel 5
Public service broadcasting (PSB) purposes	All public service broadcasters have a collective responsibility to contribute to the fulfilment of the PSB purposes.		
Statutory remits	The provision of a range of high quality and diverse programming.	To provide a broad range of high quality and diverse programming which, in particular, demonstrates innovation, experiment and creativity; appeals to the tastes and interests of a culturally diverse society; makes a significant contribution to educational programming; and exhibits a distinctive character.	The provision of a range of high quality and diverse programming.
Statutory media content duties	Not applicable.	a) make a broad range of high-quality content that appeals to the tastes and interests of a culturally diverse society; b) provide news and current affairs; c) provide content which appeals to older children and young adults; d) make, broadcast and distribute high-quality films, intended to be shown to UK audiences, and broadcast and distribute films (including third party films) that reflect cultural activity in the UK to audiences; e) support the development of people with creative talent; f) promote alternative views and new perspectives; g) promote measures intended to ensure that people are well-informed and motivated to participate in society; and h) support and stimulate well-informed debate on a wide range of issues, including by providing information and views from around the world and by challenging established views.	Not applicable.
Made out of London quotas¹⁸⁰	At least 35% of qualifying network production in terms of both hours and spend must be made outside London.	At least 35% of qualifying network production in terms of both hours and spend must be made outside London. Additionally, 9% of hours and spend must be produced outside England.	At least 10% of qualifying network production in terms of both hours and spend must be made outside London.
Licence requirements	Specific conditions in the licences for ITV, Channel 4 and Channel 5 cover: news and current affairs programming; regional programme-making; advertising minutage limits; the broadcast of independent productions; and the broadcast of original productions. Ofcom has specific powers to publish criteria and impose conditions in relation to the provision of children's programmes on Channel 3 services, Channel 4 and Channel. Ofcom must also set a quota for Channel 4 for a suitable proportion of programmes to be programmes that are intended for use in schools.		
Statement of programme policy	The commercial public service broadcasters are required to publish an annual statement of programme policy, setting out how in the coming year their PSB channel will satisfy its statutory public service remit and its specific quotas and other requirements		
Commissioning independent productions	The Act requires Ofcom to include conditions in the licences of all licensed PSB channels in order to secure that at least 25% of the time allocated to the broadcasting of 'qualifying programmes' on that channel is allocated to the broadcasting of a range and diversity of 'independent productions'. Public service broadcasters must draw up and, from time to time, revise and comply with a code of practice setting out the principles they will apply when agreeing terms for the commissioning of independent productions.		

¹⁷⁹ Ofcom, (July 2021). *Recommendations to Government on the future of public service media: Annex 8*. https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0031/208768/annex-8-psb-regulatory-framework.pdf

¹⁸⁰ Ofcom. *PSB annual compliance report*. <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/annual-report-2021>

	ITV	Channel 4	Channel 5
Restrictions on advertising minutage	In relation to their PSB channels, the licensed public service broadcasters must observe more restrictive rules on advertising minutage than other (non-PSB) broadcasters, which are set out in the Code on the Scheduling of Television Advertising.		
Accessibility	As with all television channels licensed in the UK, the PSB linear TV services are required to observe Ofcom's Code on Television Access Services. The Code includes specific targets for each PSB service and guidance about how to provide television access services, particularly in relation to subtitling, audio-description for audiences with a visual impairment, and translation into sign language.		
Must offer and must provide	In order to ensure wide availability of their PSB services, the licensed PSBs are required under their licences to supply PSB services to the holder of the relevant multiplex licence for broadcast by digital terrestrial television. They are also subject to 'must-offer' and 'must-provide' obligations in their licences in relation to the broadcasting of their PSB services on other services, including cable and satellite platforms.		
Charging prohibition	The PSB channels are free at the point of delivery, without subscription or contract.		

Source: Ofcom

Annex B Methodology for economic contribution analysis

To compare Channel 4's contribution with a scenario where Channel 4 is privatised, we have considered how Channel 4's financial projections could change in response to commercial incentives following privatisation and have forecast these revenues and costs for a ten-year period.

Our analysis reflects a privatised Channel 4 in a 'steady state' to allow a like-for-like comparison of its economic contribution. Our analysis relates to Channel 4's activities and economic contribution solely within the UK. Given that any new ownership structure for Channel 4 is unknown, we have not considered potential synergies that could arise from privatisation. These synergies would generate a higher margin for Channel 4's new private owner, but could result in reduced employment in, for example, centralised and administrative roles. As the identity or primary location of any new owner is unknown, we have not made any assumptions about the level of profits that are distributed to shareholders, compared to the level of profits retained within the business. As a comparison, ITV's annual reports (2015-2019) show that ITV distributed, on average, 77% of its operating profit to its shareholders through equity dividends between 2015 and 2019.¹⁸¹

We have estimated Channel 4's contribution to GVA and jobs on the basis of the cost forecasts using a consistent methodology with that used in our 2021 report.¹⁸² Our analysis considers two main types of impacts:

- ▶ **Direct impacts:** We analyse the economic impacts driven directly by Channel 4, such as Channel 4's GVA (or contribution to the economy) and the number of employees hired by Channel 4. The direct impact on GVA is defined as the income received by Channel 4's employees (including wages, benefits, employment taxes, national insurance and pensions) and profits made and retained by Channel 4.
- ▶ **Supply chain impacts:** Channel 4 purchases goods and services from other companies in its supply chain, which in turn have their own suppliers (referred to as indirect economic impacts). Each entity involved in Channel 4's supply chain pays compensation to its employees, who spend part of their salaries on goods and services, driving additional economic impacts (referred to as induced economic impacts). We estimate the indirect and induced economic impacts of Channel 4's activities across its whole supply chain. Taken together, we refer to the indirect and induced economic impacts as supply chain impacts.

Any increase in Channel 4's demand for goods and services will trigger yet more demand for other goods and services throughout the supply chain – this is known as the multiplier effect. We have derived appropriate regional multipliers to estimate the indirect and induced impacts of Channel 4's activities based on data from the Office of National Statistics (ONS). The multipliers used within this analysis are set out within Annex E.

The combined GVA impact of the direct value added and the indirect and induced effects can be estimated by applying these multipliers to expenditure. For example, a multiplier of 1.5 for a particular sector in the economy would imply that a £5 million of activity by an entity in that sector results in total economic activity of £7.5 million. The size of a multiplier applied to an entity's activities depends on the strength of linkages between the entity and its supply chain. The stronger these linkages between the entity and the firms in its supply chain, the larger the multiplier will be. Induced impacts take into account employees' propensity to consume. To

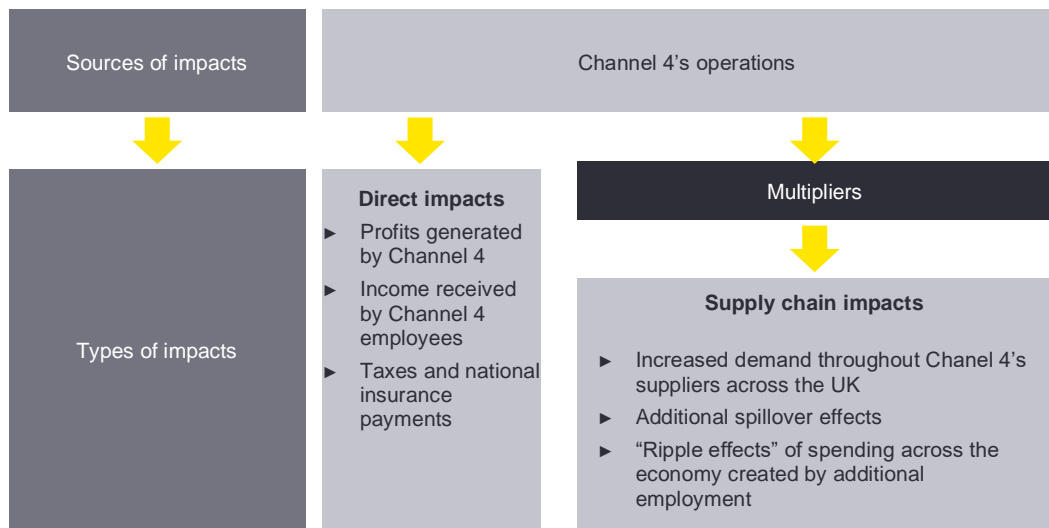
¹⁸¹ ITV annual reports (2015 – 2019) <https://www.itvplc.com/investors/results-centre/reports-and-results-archive/2021>. The 77% average is calculated by dividing ITV's total equity dividends paid each year by its operating profit.

¹⁸² EY, (2021). *Channel 4's contribution to the UK*. <https://assets-corporate.channel4.com/flysystem/s3/2021-04/EY%20Report%20for%20Channel%204%20-%20Channel%204%27s%20contribution%20to%20the%20UK.pdf>

calculate induced impacts, we take Channel 4’s total wages and salaries and apply a weighted Keynesian consumption multiplier.¹⁸³

Our analysis relates to Channel 4’s activities within the UK solely, as spend with overseas suppliers contributes to economic activity in the countries where those overseas suppliers are based, rather than in the UK. We therefore only consider Channel 4’s UK expenditure in our analysis. However, for international content acquisitions, we have assumed that the UK presence of these suppliers means that a portion of Channel 4’s expenditure with them (assumed to be 20% of relevant Channel 4 expenditure) can be considered to support the UK activity of their operations. We have therefore assumed that 20% of Channel 4’s expenditure on international acquisitions relate to UK suppliers, and have allocated this expenditure by region in line with Channel 4’s UK content expenditure by region.¹⁸⁴ Figure B.1 summarises our approach to assessing Channel 4’s economic impact.

Figure B-1: Overview of economic framework



A social discount rate has been applied to estimate the present value of Channel 4’s future contribution

The main role of discounting in our analysis is to understand the present value of Channel 4’s future contribution to GVA over a ten-year period. The discount rate used in the Green Book is known as the social time preference rate (STPR). The STPR is the rate at which society values the present compared to the future. The STPR has two components:

- ▶ **Time preference:** This is the rate at which consumption and public spending are discounted over time, assuming no change in per capita consumption. This captures the preference for value now rather than value in the future.
- ▶ **Wealth effect:** This reflects the expected growth in per capita consumption over time, where future consumption will be higher relative to current consumption.

The STPR used in the Green Book is set at 3.5% in real terms. We received financial data from Channel 4 in current prices (nominal terms). As part of our analysis, we have converted the financial data to real terms using UK consumer price inflation rates and have converted to present value by using the STPR of 3.5%.

¹⁸³ The Keynesian consumption multiplier takes into account the impact of spending by people directly employed by Channel 4.

¹⁸⁴ This assumption is informed by discussions we held with Channel 4’s Acquisitions team earlier in 2021. Channel 4 informed EY that its supply chain for international acquisitions is becoming increasingly diversified, with more European suppliers with UK bases, which will increase the proportion of spend on international acquisitions that is allocated to the UK in future.

Annex C Assumptions for economic contribution analysis

Figure C-1: Assumptions on how Channel 4's revenues and costs could change if Channel 4 is privatised and only meets the minimum requirement of its public service obligations

Input	Channel 4 continues under its current ownership structure	Channel 4 is privatised and only meets the minimum requirement of its 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 rationale 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's staff presence in the Nations and Regions remains in with its three-year plan 	<ul style="list-style-type: none"> ▶ Commercial incentives lead Channel 4 to cut its investment in training and development programmes to reduce costs to improve profitability ▶ 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 the new private owner of 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. We have assumed a 22% fall in commissioning spend within our analysis, which equates to a reduction of £102.5m ▶ Channel 4 reduces its expenditure with independent production companies based in the Nations and Regions to 35% of its total commissioning spend (in line with its current quota)
Film investment	<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 2020¹⁸⁵. 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

¹⁸⁵ ITV annual report (2020) https://www.itvplc.com/~/_media/Files//ITV-PLC/documents/reports-and-results/annual-report-2020.pdf

Figure C-2: Assumptions on how Channel 4's revenues and costs could change if DCMS heightened Channel 4's public service obligations following privatisation

Input	Channel 4 continues under its current ownership structure and publisher-broadcaster model	Channel 4 is privatised and its public service obligations are updated
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 rationale 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's staff presence in the Nations and Regions remains in with its three-year plan 	<ul style="list-style-type: none"> ▶ Commercial incentives lead Channel 4 to cut its investments in training and development programmes to reduce costs to improve profitability ▶ Channel 4's new owner commits to retain its presence in the Nations and Regions
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 the new private owner of 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"> ▶ A commercial Channel 4 reduces its commissioning costs as a percentage of total revenue to the same proportion of comparable revenues as ITV. We have assumed a 22% fall in commissioning spend within our analysis, which equates to a reduction of £102.5m ▶ Channel 4's 'made out of London' quota is updated, and 50% of commissioning spend is spent with independent production companies based in the Nations and Regions, in line with Channel 4's current voluntary commitment
Film investment	<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 commercial 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 3-year plan at 4% p.a. 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 ▶ This operating margin is below ITV's adjusted EBITDA margin of 20.6% in the year ended 31 December 2020¹⁸⁶. 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

¹⁸⁶ ITV annual report (2020) https://www.itvplc.com/~/_media/Files//ITV-PLC/documents/reports-and-results/annual-report-2020.pdf

Figure C-3: Assumptions on how Channel 4’s revenues and costs could change if Channel 4 were privatised and the publisher-broadcaster model was ended

Input	Channel 4 continues under its current ownership structure and publisher-broadcaster model	Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed
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, plus additional distribution revenues (from secondary rights exploitation of content produced in-house) and revenues from producing content for third parties
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 investments in training and development programmes to reduce costs to improve profitability ▶ Additional staff costs are incurred as Channel 4 employs staff to distribute its content and produce commissions for third parties ▶ Channel 4 maintain its current proportion of staff presence in the Nations and Regions
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 fall in commissioning costs, acquisitions now represent a higher proportion of Channel 4’s total content costs, as a commercial Channel 4 focuses on acquiring cheaper content that has already been 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 being in the Nations and Regions 	<ul style="list-style-type: none"> ▶ Commissioning costs decrease as the commercial owners look to decrease costs to improve profitability, reducing spend on risky new commissions and refocusing spend on cheaper entertainment content. We have assumed a 22% fall in commissioning spend within our analysis, which equates to a reduction of £102.5m ▶ 66% of Channel 4’s new commissioned content is commissioned from Channel 4’s in-house production company, in line with ITV Studios UK’s share of original content on ITV’s main channel¹⁸⁷. The remaining 34% is commissioned from independent production companies ▶ Of expenditure on in-house commissions, we assume that 65% relates to production staff and freelancers while the remaining 35% is spend by Channel 4’s in-house production unit with its supply chain (e.g., hiring studios and equipment). This split is based on Channel 4’s understanding of a typical split of staff/supply chain costs for producers ▶ We assume that, in line with DCMS’s consultation, DCMS has increased Channel 4’s quota to maintain its contribution to the Nations and Regions so 50% of its commissioning spend is in the Nations and Regions. The quota is partly met through in-house production based outside London
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 commercial owners look to decrease costs to improve profitability

¹⁸⁷ Five-year average of ITV Studios UK’s share of original content on ITV main channel between 2016 and 2020. Shares taken from ITV annual reports over this period.

Input	Channel 4 continues under its current ownership structure and publisher-broadcaster model	Channel 4 is privatised with heightened public service obligations and the publisher-broadcaster model is removed
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 17.8% by the end of the forecasted period ▶ This margin is lower than ITV's adjusted EBITDA margin of 20.6% in the year ended 31 December 2020¹⁸⁸. This lower margin reflects that we have not modelled synergies for the privatised Channel 4. In practice, if Channel 4 were bought by an entity that owned its own existing production unit, there would be some synergies that could be achieved to reduce costs and obtain a higher margin.

¹⁸⁸ ITV annual report (2020) https://www.itvplc.com/~/_media/Files//ITV-PLC/documents/reports-and-results/annual-report-2020.pdf

Annex D Comparing Channel 4's current ownership model against privatised scenarios

Figure D-1: Channel 4's contribution to GVA and jobs under its current ownership structure, compared to a Channel 4 which is privatised as a publisher-broadcaster with its current public service obligations

	Current ownership structure	Privatised with no change to public service obligations	Variance (£millions)	Variance (%)
GVA (£millions)				
Direct GVA	£1,120	£2,150	£1,030	+92%
Supply chain GVA - London	£4,426	£4,572	£146	+3%
Supply chain GVA - Nations and Regions	£2,790	£1,584	-£1,206	-43%
Total GVA	£8,336	£8,306	-£30	-0.4%
Jobs supported (average number of roles per year)				
Direct jobs - UK	964	1,060	96	+10%
Direct jobs - Nations and Regions	248	136	-112	-45%
Supply chain jobs - London	5,901	6,772	871	+15%
Supply chain jobs - Nations and Regions	3,597	1,393	-2,204	-61%
Total jobs supported	10,710	9,361	-1,349	-13%

Figure D-2: Channel 4's contribution to GVA and jobs under its current ownership structure, compared to a Channel 4 which is privatised as a publisher-broadcaster with heightened public service obligations

	Current ownership structure	Privatised with heightened public service obligations	Variance (£millions)	Variance (%)
GVA (£millions)				
Direct GVA	£1,120	£2,150	£1,030	+92%
Supply chain GVA - London	£4,426	£3,855	-£571	-13%
Supply chain GVA - Nations and Regions	£2,790	£2,301	-£489	-18%
Total GVA	£8,336	£8,306	-£30	-0.4%
Jobs supported (average number of roles per year)				
Direct jobs - UK	964	963	-1	-0.1%
Direct jobs - Nations and Regions	248	233	-15	-6%
Supply chain jobs - London	5,901	5,206	-695	-12%
Supply chain jobs - Nations and Regions	3,597	2,959	-638	-18%
Total jobs supported	10,710	9,361	-1,349	-13%

Figure D-3: Channel 4's contribution to GVA and jobs under its current ownership structure, compared to a Channel 4 which is privatised with heightened public service obligations and the publisher-broadcaster model is removed

	Current ownership structure	Privatised with heightened public service obligations and the publisher-broadcaster model is removed	Variance	
GVA				
Direct GVA	£1,120	£3,649	£2,529	+226%
Supply chain GVA - London	£4,426	£3,389	-£1,037	-23%
Supply chain GVA - Nations and Regions	£2,790	£1,756	-£1,034	-37%
Total GVA	£8,336	£8,794	£457	+5%
Jobs supported				
Direct jobs - UK	964	2,011*	1,047	+109%
Direct jobs - Nations and Regions	248	1,280	1,032	+416%
Supply chain jobs - London	5,901	4,716	-1,185	-20%
Supply chain jobs - Nations and Regions	3,597	2,348	-1,249	-35%
Total jobs supported	10,710	10,355	-355	-3%

* We have assumed that many of the roles which were previously supported by Channel 4 in its supply chain would move in house, and would be supported by Channel 4 directly within its new production and distribution units, either as salaried staff or as freelancers.

Annex E Economic multipliers

A breakdown of the economic multipliers used in our analysis are set out in Figures E.1 to E.4.

Figure E-1: Indirect GVA multipliers

	UK Input-Output multipliers (National)	London Input-Output multipliers	Rest of UK Input-Output multipliers
Transmitter and regulatory	0.71	0.51	0.58
Content, content overheads and cost of sales	0.79	0.76	0.73
Technology	0.89	0.87	0.84
Costs of marketing	0.91	0.89	0.85
Other operating expenditure	0.83	0.78	0.78
Construction	0.74	0.60	0.72
Education services	0.91	0.87	0.89

Figure E-2: Induced GVA multipliers

	UK Input-Output multipliers (National)	London Input-Output multipliers	Rest of UK Input-Output multipliers	Employee costs (Keynesian multiplier)	GVA/output ratio
Transmitter and regulatory	0.89	0.60	0.70	0.36	0.52
Content, content overheads and cost of sales	1.05	0.94	0.93	0.36	0.52
Technology	1.35	1.19	1.20	0.36	0.52
Costs of marketing	1.24	1.12	1.11	0.36	0.52
Other operating expenditure	1.18	1.02	1.06	0.36	0.52
Construction	1.00	0.74	0.93	0.36	0.52
Education services	1.40	1.20	1.28	0.36	0.52

Figure E-3: Indirect employment multipliers

	UK Input-Output multipliers (National)	London Input-Output multipliers	Rest of UK Input-Output multipliers
Transmitter and regulatory	5.45	3.56	4.25
Content, content overheads and cost of sales	6.89	6.53	6.23
Technology	12.47	12.15	11.72
Costs of marketing	8.67	8.42	7.92
Other operating expenditure	14.67	14.01	14.04
Construction	9.18	7.25	8.90
Education services	16.90	16.28	16.60

Figure E-4: Induced employment regional multipliers

	UK Input- Output multipliers (National)	London Input- Output multipliers	Rest of UK Input- Output multipliers	Employee costs (Keynesian multiplier)	GVA/output ratio
Transmitter and regulatory	7.44	4.43	5.61	0.36	7.20
Content, content overheads and cost of sales	9.74	8.31	8.49	0.36	7.20
Technology	17.37	15.29	15.73	0.36	7.20
Costs of marketing	12.29	10.73	10.83	0.36	7.20
Other operating expenditure	18.46	16.35	17.14	0.36	7.20
Construction	11.94	8.66	11.21	0.36	7.20
Education services	22.15	19.57	21.05	0.36	7.20

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2021 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

EYUK-000141096 (UK) 09/21. CSG London.

ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk