<u>Channel 4 Advisory</u>

DCMS Select Committee Hearing 19 May 2022

Nadine Dorries, Secretary of State, DCMS: *"Channel 4 is dependent on one stream of revenue which is advertising... The pool of ad budget has reduced significantly."*

Channel 4 has never been in a better financial position and is financially stable. For the last two years, Channel 4 has generated **a record financial surplus**.

2021 was a financial record-breaking year for Channel 4 that will all be reinvested in the UK's creative industries directly or indirectly:

- Corporate revenue of £1.164bn for the first time ever (2020: £934m; +25%; 2019: +18%) and outperforming ITV's growth.
- £101m surplus, the first three figure surplus since Channel 4 launched in 1982.
- Cash balance of £272m, the highest in over a decade

In terms of diversifying revenue, in 2021:

- Digital advertising grew by +40%; and Channel 4's share of the digital ad market was 35%, ahead of its 28% share on linear
- 19% of Channel 4's revenues are from digital advertising, well above the market and the competition.
- Non-advertising revenue is 9% of total revenue, on track to deliver at least 10% of total revenue by 2025.

Advertising revenue trends:

- In 2021, total advertising was actually up 25% compared to 2020; and up 16% compared to 2019. Digital advertising also increased every year since 2019, and was 19% of total revenue in 2021, with year-on-year growth of 40%.

Also, advertising-funded models are among the most profitable businesses in the world, such as Facebook and Google, funded by advertising. The key is ensuring Channel 4 is moving from linear TV advertising to digital and they're doing that faster than any of their competitors.

Nadine Dorries, Secretary of State, DCMS: *"Channel 5 is the levelling up broadcaster, particularly in Yorkshire. In terms of what gets spent in regions. In terms of funding into the regions, C5 is definitely lighting the way on that."*

Channel 4 **spends more** on Nations & Regions external production than any other commercially funded broadcaster: Channel 4 spent **£222m** on Nations & Regions external productions in 2021, which we estimate to be over double ITV's external spend in the Nations & Regions.

In terms of Channel 5, it is wholly incorrect to claim that Channel 5 is 'the levelling up broadcaster. Channel 4 spends **<u>over six times</u>** Channel 5's external Nations & Regions spend.

Starting in 2022, 4Skills will create over **15,000 learning and development opportunities** for young people every year from 2022 across the UK. The programme will offer entry level, career progression training and a national schools engagement programme, working with a range of partners:

- Entry level opportunities include internships, apprenticeships and production training schemes

- Progression training will include partnerships (i.e. with NFTS), training days regional hubs and bursaries)
- Schools Engagement School activity will engage over 12,000 Key Stage 3 pupils (11–14-year-olds) in disadvantaged areas as well as SEND schools.

Channel 4 also works with more than 300 production companies, and it commissions from more TV production companies than BBC One, BBC Two, ITV or Channel 5.

Nadine Dorries, Secretary of State, DCMS: *"The indie production sector only earns 7% of its revenue from Channel 4."*

Channel 4 invests more in independent production companies outside London than any other broadcaster, and through this, supports thousands of jobs in the nations and regions.

In 2022, Channel 4 will spend **£711m**, a record investment in content spend in the company's history.

Channel 4 commissioning spend and share of total production sector revenue
- The White Paper repeatedly cites data on Channel 4 spend based on Pact Census data for 2020 stating that Channel 4 spent £210m in 2020, making up 7% of production sector revenue. PACT Census data is survey-based and does not capture the totality of Channel 4 spend, therefore the numbers cited considerably underestimate Channel 4's external commissioning spend and, consequentially, the proportion of production sector revenue that represents.
- Channel 4's actual originated content spend in 2020 was £370m. This would represent 13% of Pact's estimated total production sector revenues of £2875m.

2020 was also an unrepresentative year due to the pandemic, looking at 2019 Channel 4's actual originated content spend was £492m, **making up 15% of total sector revenues** of £3.3bn

- Last year two thirds of all original programming commissioned for the main channel was produced in the Nations and Regions – nearly double the broadcaster's 35% quota set by Ofcom. And 55% of spend on new content was commissioned from production companies in Nations and Regions.
- PACT – the trade body for the independent production sector – predicts the sector could lose £3.7 bn over the next ten years if Channel 4 is privatised, including £80m-£100m in the first year. Privatisation would not only see the independent sector losing commissioning income from Channel 4 but also a reduction in income from export sales of programmes commissioned by Channel 4.

Nadine Dorries, Secretary of State, DCMS: *"It's the right time to sell Channel 4 and for the government to receive a creative dividend from that sale, which we can invest back into the production sector."*

Channel 4 already invests massively in levelling up: the government argument that the creative industries would get a one-off windfall from any sale misses the point of the current model: it already powers the creative industries year-in year-out (as it has done very successfully for four decades). As a publisher-broadcaster, Channel 4 invests more in independent production companies outside London than any other broadcaster and supports thousands of jobs outside London.

> **Nadine Dorries, Secretary of State, DCMS:** *"Channel 4 wants to raise investment. We can't allow Channel 4 to raise investment because the taxpayer will be liable for the debt of that investment."*

Channel 4 does not currently have any organisational debt, and nor do our future strategic objectives require us to borrow. In response to the Government's concerns about future borrowing set out in the consultation document, we put forward a proposal that would have enabled Channel 4 to access private-sector capital in a way that would not sit on the public balance sheet.

At no point has Channel 4 said that it would need external investment to fund investment by Channel 4. Channel 4 has **£270m in cash** and sufficient funds for strategic investments that would enable it to continue to deliver cultural, social and economic value to the UK. The IP joint venture outlined in 4: The Next Episode proposed leveraging external capital to drive new investment into the UK creative economy.

The Government has decided not to take forward this proposal.

DCMS states that the rationale for privatisation is to enable Channel 4 to have greater access to debt capital and ability to raise equity so that it can invest in content and technology and compete with others in the market. It considers that publisher-broadcaster status reduces our ability to diversity income and improve resilience by owning IP.

It states that the Government aims to underpin Channel 4's future financial sustainability through revenue diversification and access to capital without placing undue risk or burden on public sector finances.

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