Julian Knight MP
Chair, DCMS Select Committee
House of Commons
Palace of Westminster
London
SW1A 0AA

27 May 2022

Dear Chair,

On Thursday 19th May 2022, the Secretary of State for Digital, Culture, Media and Sport appeared in front of your committee to provide oral evidence on the work of her department. During the session, members of your committee asked questions about the government's intention to privatise Channel 4.

In her answers, the Secretary of State made a number of claims relating to Channel 4 and the consultation process which we believe require clarification.

As the CEO of Channel 4, I am writing to correct these statements. I would be grateful if you could make this letter available to the members of your committee.

In her evidence the Secretary of State stated that:

1) In answer to a question about the government's consultation on Channel 4, the Secretary of State claimed that "*about 96%*" of the 56,293 responses received by DCMS were in support of privatisation.

Clarification:

i. According to data released by DCMS, 96% of respondees to the consultation either disagreed that Channel 4 is unsustainable in public ownership, or disagreed that it should be privatised. 91% disagreed that Channel 4 could better and more sustainably deliver its remit outside of public ownership.

2) In answer to a question about the reason for privatising Channel 4, the Secretary of State said that "*Channel 4 is dependent on one stream of revenue which is advertising... The pool of ad budget has reduced significantly.*"

Clarification:

i. Channel 4 has never been in a better financial position and is financially stable. In each of the last two years, Channel 4 has generated a record financial surplus.
ii. Channel 4 is rapidly diversifying its revenue. In 2021 Channel 4's digital advertising grew by +40%. 19% of Channel 4's revenues are from digital advertising, well above the market and the competition.
iii. Channel 4's non-advertising revenue is 9% of total revenue, on track to deliver at least 10% by 2025.
iv. Advertising-funded models are among the most profitable businesses in the world. Facebook and Google are largely funded by advertising and both Netflix and Disney have announced that they are considering introducing an advertising model to complement their subscription services. Channel 4 is the UK's biggest free streaming service and we are already diversifying our revenue streams, moving faster towards digital than any of our competitors.

3) The Secretary of State said that "*the Independent production sector only earns 7% of its revenue from Channel 4*".

Clarification:

i. 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.
ii. In 2020, Channel 4's originated content spend was £370m. This would represent 13% of Pact's estimated total production sector revenues of £2,875m.
iii. However, 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.
iv. Furthermore, in 2022, Channel 4 will spend £711m, a record investment in content spend in the company's history.

4) The Secretary of State claimed that *"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."*

Clarification:

i. Channel 4 does not currently have any organisational debt, and nor do our future strategic objectives require us to borrow.
ii. 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.
iii. At no point has Channel 4 said that it would need external investment to fund investment by Channel 4.
iv. 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 Channel 4's alternative proposal to government – '4: The Next Episode' – proposed leveraging external capital to drive new investment into the UK creative economy. The Government rejected this proposal.

5) In answer to a question about investment in the Nations & Regions, the Secretary of State said she considered Channel 5 to be "*the levelling-up broadcaster*" and claimed that "*in terms of funding going into the regions, Channel Five is definitely lighting the way*".

Clarification:

i. 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.
ii. In terms of Channel 5, it is incorrect to claim that Channel 5 is spends more in the nations and regions than Channel 4. We estimate that Channel 4 spends over six times Channel 5's external Nations & Regions spend.
iii. Furthermore, '4: The Next Episode' promised to be even more ambitious in levelling up the creative sector with plans to invest £2bn in Nations and Regions content over the next decade, create 5,000 jobs in the supply chain, and establish the first TV skills academy outside of the Southeast. The government rejected this proposal.

Given the significant interest in this matter and widespread coverage of the Secretary of State's evidence session, I would be grateful if you could make this letter publicly available via your committee's website. Channel 4 will do the same.

Yours sincerely,

Alex Mahon
Chief Executive, Channel 4