



# Communications and Digital Committee

## Corrected oral evidence: The future of Channel 4

Tuesday 14 September 2021

2.45 pm

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Members present: Lord Gilbert of Panteg (The Chair); Baroness Bull; Baroness Buscombe; Baroness Featherstone; Lord Griffiths of Burry Port; Lord Lipsey; Baroness Rebuck; Lord Stevenson of Balmacara; Baroness Stowell of Beeston; Lord Vaizey of Didcot; The Lord Bishop of Worcester.

Evidence Session No. 3

Heard in Public

Questions 19 - 31

### Witnesses

**I:** Kevin Bakhurst, Group Director, Content and Media Policy, and Board Director, Ofcom; Kate Biggs, Director, Broadcast Policy and Commercial Broadcasters, Ofcom.

### USE OF THE TRANSCRIPT

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## Examination of witnesses

Kevin Bakhurst and Kate Biggs.

Q19 **The Chair:** Welcome to our witnesses to this evidence session today in our inquiry into the Government's review of the ownership of Channel 4. Our witnesses are Kevin Bakhurst, who is group director of content and media policy at Ofcom, and Kate Biggs, who is director of broadcast policy and commercial broadcasters at Ofcom. Kevin and Kate, thank you very much indeed for joining us and for giving up your time to be with us today. Could you start with brief introductions to your roles, then a brief explanation of the role that Ofcom plays in relation to Channel 4 and a brief summary of anything that you have so far said on the record about your view of the future ownership of Channel 4? Then we will go round and take questions.

**Kevin Bakhurst:** Shall I go first? Then I will bring Kate in to correct anything I get wrong. Thank you very much to the committee for having us here. Obviously this is at the very forefront of our minds at Ofcom at the moment because of the importance of Channel 4 to the UK's broadcasting environment. We have a number of roles that touch on Channel 4, as I am sure the committee realises.

First, we have an overall responsibility towards the maintenance and success of public service broadcasting or public service media in the UK. We published a report earlier in the summer, giving some recommendations for Parliament and the Government to consider in helping to safeguard the benefits that public service broadcasting delivers to the UK.

We then have several roles with Channel 4 itself. Clearly, we regulate Channel 4 as one of the PSBs. We issue it a licence, which sets out a number of requirements. We also report annually on how it has delivered its remit in the past 12 months. We also do a five-year review of Channel Four Television Corporation to take a five-year view of how it has delivered its remit. There is all that and then we have the wider responsibilities around media ownership and so on. That would be our role.

**The Chair:** Kate, do you want to add anything?

**Kate Biggs:** I do not have a huge amount to add to that. Obviously the matter of the PSB remit and ownership is rightly a matter for government and Parliament, but we have insight as the regulator in terms of performance and some of the wider trends that we see in the market, both commercially and from an audience perspective.

Q20 **Baroness Bull:** You opened by talking about the importance of Channel 4 to the broadcasting environment—or rather you used that sentence but you did not talk about it. Can I invite you first to say exactly what that importance is? What is its distinctive role in the public service broadcasting system?

**Kevin Bakhurst:** I will start and Kate may want to add a bit more. In our work looking at the future of public service media in the UK that we published earlier in the summer, one of the things that we identified was that the UK has a very unique ecology of public service broadcasters. It is totally unique in the world to have a public intervention like the BBC, which is publicly funded, to have a hybrid corporation like Channel 4—we know how that is commercially funded but publicly owned—and then to have some purely commercially funded and profit-making commercial PSBs. Therefore the ecology is quite complicated. Probably if you designed it now you may not even think it up.

The net result of all that together is that audiences in the UK are incredibly well served across the piece by a combination of what all those PSBs deliver to them. Some of the content is driven by pure public service; some of it is much more commercially focused. Overall, the proposition for UK audiences is seen globally—we have done some research on this—as being envied around the world and highly successful.

It is also the very engine of the UK's creative economy and the success of the UK's creative economy. Within that, Channel 4 plays a very distinct role. We can come on to talk about that later on, but Channel 4's role in the UK's creative economy is seen by many as having been a hugely successful innovation when it was created under Margaret Thatcher. Over the years, as it has evolved, it has always been there as a really successful driver of the UK's highly successful independent production sector. Also, because of its particular remit, which again we can come on to, Channel 4 answers a number of needs that would not be answered at the moment purely by commercial broadcasters or their obligations.

**Baroness Bull:** Can I push you a little bit? You said we could come on to it in a moment. Is the particular remit clearly defined enough for it to be delivered on and for you to measure the success of delivery?

**Kevin Bakhurst:** I have heard this question asked. Our view, as regulators, is that a combination of really clear qualitative<sup>1</sup> quotas is a good basis. For the creative industries, and broadcasters in particular, a further range of aims that allow some room for creativity and how you are going to deliver that, particularly across platforms, is a good combination. You absolutely want to ensure, for example, the amount of production that is done by independent producers or the amount of production that is done outside the M25, as it is rather quaintly described in some of the legislation. To have clear quotas that broadcasters must meet or exceed is really useful.

Otherwise, as in Channel 4's case, it has the media content duties, which are a range of wider aims. It has to show us how it achieves those. It is quite a good combination and something we are looking at increasingly

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<sup>1</sup> Amended by witness: I intended to say 'clear quantitative quotas' here instead of 'clear qualitative quotas'.

in regulating other broadcasters as well. It gives a degree of flexibility in how you meet those and allows creativity to thrive.

**Baroness Bull:** It allows creativity in the response to delivering against it. That is a really interesting point. I am sure you saw the session last week from David Elstein, who argued that the tests were so vague that it was impossible for anybody to meet them or indeed to be shown to fail to meet them. Your argument is quite interesting: if you are dealing with an innovative entity, you need to allow it the space to respond imaginatively.

Can I ask about educational programming? David was very damning about the failure to deliver. I would be keen to hear your definition of educational programming in a 21st-century environment. Do you think Channel 4 is meeting those standards? If not, why not?

**Kevin Bakhurst:** Kate is our living expert in Ofcom in this area, so I might defer to her imminently. This is the one area where, in recent years, we have had some discussions with Channel 4 about how it is meeting this remit. It has a general remit for educational-type programming for everybody and then it has a specific remit for serving young adults and older children. How you provide that kind of output—educational programming—to younger adults and older children in particular, has been the area we have had discussions with Channel 4 because there are different ways of delivering that.

I noticed last year in particular, when obviously the Covid environment played a huge part, that educational programming took a particular hit with Channel 4. Over the years, from what I have seen—I have only been regulating for five years—trying to protect children’s content and educational content is a constant discussion with some of the broadcasters, because it is high cost and not commercially that valuable to them, frankly. Kate may want to talk much more about this, because she led our project on children’s content and educational content.

**Kate Biggs:** Education content is not analogous to schools content. We are in slight trouble if the regulator goes programme by programme, “That is educational, that is not educational”. We need to look across the portfolio at how it is delivering for older children. We have highlighted some concerns and we think more can be done, not just by Channel 4. I would argue that it is quite a difficult age group to serve through broadcast content in current times, when children are spending more and more time online. That is something we are very keen to work on with all the PSBs, including Channel 4, about how they can be more innovative in how they appeal to, attract and add value for those age groups.

**Kevin Bakhurst:** Can I add to that on the point I made about last year? Channel 4 spent £1 million on programming specifically for children aged 10 to 14 last year, which was down from £6 million the year before. That is what I mean about that programme budget being under pressure during Covid.

Q21 **Baroness Stowell of Beeston:** Hi there. I should declare that I know Kate and Kevin. We were colleagues at the BBC, albeit a long time ago

now. I want to broaden it back out again to Channel 4's remit and Ofcom's definition of the purpose and characteristics of public service broadcasting. I was interested to see how you, as a regulator, are defining the purposes of PSB. My interpretation of those purposes are that they are purposes that would lead any of your PSP broadcasters to have to understand and reflect the world as it is.

Channel 4 is defining its purpose, so the reason why it has a remit, as to change the world through entertainment. From your perspective as a regulator, I wondered what your view is of Channel 4's definition of its purpose—to change the world through entertainment—and whether you look at all at how it is performing against that purpose.

**Kevin Bakhurst:** It is part of the statutory remit to challenge the existing views, present a range of views and information and so on. Challenging existing views probably describes what you are talking about there a little bit. This is partly what I was trying to touch on before about Channel 4's unique role. It presents a range of views that it is hard to find elsewhere in UK broadcasting and a range of attitudes with programming. It is a mix of its various duties under the statutory remit to find new voices, to bring on new talent, to be innovative in what it is doing and its approach to programming, and indeed to challenge existing and established views.

To answer your question, inevitably, if you are going to be innovative, original, drive new content and use new producers, some attempts at that are going to be more successful than others. In a way, one of the questions for me, if you change the funding model of Channel 4, would be how you maintain risk-taking in this area that delivers this kind of creativity and the desire to try stuff that would not be an obvious commercial success. I am not sure whether that answers your question fully, but it was a difficult question.

**Baroness Stowell of Beeston:** I suppose another way of me asking the question is whether Ofcom has a view on the way Channel 4 is defining its purpose. Is that something that you even have a view on?

**Kate Biggs:** The challenge is a fair one, about whether it should be reflecting the world back to itself or changing the world in some way. Given its particular focus on younger audiences there is the sense of it being a bit provocative, whether it is telling stories such as the early days of the AIDS crisis in "It's a Sin", which can change how audiences see themselves and the history we have lived through. That interpretation of reflecting the world back is a legitimate one for a broadcaster that is around risk-taking, innovation and being a bit more provocative, I suppose, and appealing to a particular younger and more diverse audience. It does tend to, particularly in some genres, appeal to more black, Asian and ethnic minority audiences than some of the other PSB channels.

Q22 **Baroness Featherstone:** This is really a follow-on from Baroness Bull's question. We keep bringing up "It's a Sin" as an example, a bit like the Paralympics. Could you name a couple of programmes that you consider

to be really excellent educative programmes for young people, just so I can get my head round your judgment?

**Kevin Bakhurst:** I do not want to be silent on that. There is a range.

**Baroness Featherstone:** You can come back to me.

**Kevin Bakhurst:** There is a young person's drama, "Ackley Bridge", which Channel 4 has invested substantially in.

**Baroness Featherstone:** It has been going for a very long time though, has it not?

**Kevin Bakhurst:** A reasonable amount of time, a few years, yes, but it is not a cheap programme and it has invested in it. It was a classic example of the first series not being necessarily a mark-out success and it has carried on investing in it. It connects with younger audiences and explores some of those issues. That would be one.

Otherwise, it is very successful at reaching younger audiences with news and current affairs. I do not think we should dismiss those, in terms of their educational value. "Dispatches" and "Unreported World" are quite unique programmes. This is a classic one where it has to produce a certain number of hours of those in its licence, but it exceeds its quota. It has just announced that it is going to produce more "Dispatches" on All 4. Those are the kinds of programmes that do impressively well, considering the competition, with 16 to 24 year-olds.

**Baroness Featherstone:** I am looking for how to defend it against the attacks of undereducating, should they come as one of the rationales.

**Kevin Bakhurst:** Can I speak on that? We had this discussion quite a bit with Jay Hunt when she was there, about educative programming and how Channel 4 delivered that. As I say, this has been one area where we have challenged it over a few years. Its argument, which we bought to an extent, although not totally, was that you can produce programmes like "Dispatches" or whatever that appeal. They do not say on the box, "These are for 10 to 14 year-olds", but a significant amount of their audience is made up of younger adults and older children. For Channel 4, the bullseye is to produce programmes that appeal to a wider number of audiences but attract a significant number of younger audiences as well. That is why sometimes educational content is not like "Play School" or whatever, which is really obvious, or used to be.

**Baroness Featherstone:** It needs a new terminology.

**Lord Vaizey of Didcot:** I am very much enjoying your evidence, watching you navigate the treacherous shoals between privatisation and non-privatisation, displaying the excellence of Ofcom that we have come to love and respect. Can I ask a slightly random question, which I hope is relatively neutral? Before Channel 4 can be privatised, whether or not one agrees with it, is it not the case that, to a certain extent—Ofcom plays a key role here—certain key questions have to be settled, for example the future of broadcast advertising regulation, HFSS and things like that? Is that a discussion you are having with the Government to get those concluded and aligned with any potential sale process?

**Kevin Bakhurst:** That is a great question. A number of things are in progress at the moment that will have an impact on any sale of Channel 4 or change in ownership. Number one is the prominence discussion and what the Government decide to do, or not, on that. Clearly, the value of an organisation where the content can be found really easily is significant.

The second one is things such as—you are right—advertising minutage, which we are in discussions about. We would have to make recommendations to government. It is a matter for government, but we have a degree of flexibility. That is something we have turned to, not just for Channel 4 but also for ITV and Channel 5, to look again at advertising minutage and whether we are in the right place with PSBs on that at the moment.

There are a number of outstanding issues that probably need to be resolved, either at the same time or in advance. Then there are two of the key questions for any change of ownership. One is what you do about the remit: do you still have a remit that the organisation is culturally built, by and large, to try to achieve? That is why it has been built that way.

**Lord Vaizey of Didcot:** We are going to have questions on the remit.

**Kevin Bakhurst:** Do you want to move on to those?

**Lord Vaizey of Didcot:** I just wanted to establish that people had taken on board, whether Ofcom or the Government, that there are certain peripheral regulatory issues that need to be settled.

**Kate Biggs:** Might I add one thing to that? You are quite right: some quite difficult sequencing needs to be done, particularly around the new licence, because the current one expires at the end of 2024, as well as government policy decisions around certain advertising constraints, new PSB benefits et cetera. We are providing technical advice but, as ever, you would expect us to stand away where it is clearly a policy decision for government and Parliament.

**The Chair:** We want to continue to focus on the distinctiveness of Channel 4, its remit and how its remit might be protected in the future. Let us move on.

Q23 **Baroness Rebuck:** You have partly answered my first question, which was about how privately owned PSBs differ from Channel 4 and the extent to which Channel 4 is truly distinctive. Where I think it is interesting is assuming that its distinctiveness, which I have heard enough to think that that is what you are suggesting, is due to its remit, or is it a factor of its ownership structure and operation as a publisher broadcaster?

**Kevin Bakhurst:** That is a good question. My view would be that it is a combination of all those factors. Ofcom can put as many concrete quotas into a remit as we are asked to do. As I tried to explain, instinctively we put those in only where we feel they absolutely have to be there. Otherwise, we would encourage or rely on the broadcaster. Sometimes

there is a backstop. There is a backstop with Channel 4: if we do not think it is delivering, we can put something else into its licence, if we want to, on some areas.

One of the key questions to consider is that Channel 4 has been really successful for 40 years in building up a culture to deliver on this remit, to be an alternative broadcaster. Whatever the ownership model and whoever the new owners may or may not be, how do you preserve that culture and do you want to preserve it? Do they recruit people because they know how to deliver that kind of remit and fit into that kind of organisation?

We have seen changes of culture in an organisation because of ownership changes quite recently. If you take Channel 5, that is quite a good example. We worked really closely with Viacom since it bought Channel 5, and with Channel 5. It really has changed the remit, the investment level in Channel 5 and the commitment to types of programming and genres. A change of ownership can directly lead to a change of culture and output in an organisation.

**Baroness Rebuck:** I guess it could be positive or negative.

**Kevin Bakhurst:** Yes, and I would argue that it has been in the case of Channel 5. Look at Sky under new ownership. Sky is doing all sorts of things now that it maybe was not doing two or three years ago. It is really leveraging its relationship with Comcast in a pretty impressive way for audiences.

**Baroness Rebuck:** I have a quick question. In your 2014 to 2018 report, you noted a slight decline in the amount of first-run material in favour of repeats at Channel 4—it was only minor, I think—and a decline in the overall number of producers supplying Channel 4. We heard evidence that Channel 4 commissions more independent producers than other PSBs and that it helps emerging and regional independents, which I think you have talked about, often developing ideas right at the outset—pre-commission, if you like. I was wondering whether a change in its circumstance and market forces could affect that in the event of a sale, given that that seems the nub of it. I do not want to put words into your mouth, but I am trying to get to what is distinctive about Channel 4 and whether it is that it does not have a production arm.

**Kevin Bakhurst:** As you rightly say, Channel 4 uses a much wider range and type of producers, including a number of smaller ones. Often they start small and they are not when Channel 4 is finished commissioning from them. It uses a wide range of independent production companies and, as you rightly say, from around the UK as well. That does not come without an extra cost or an extra risk factor sometimes. It is much easier to go back and commission from producers with a tried and tested record who deliver this stuff again and again.

These are the sorts of discussions we have had with Channel 4 over the years. Where we see a slight fall in the number of producers, we would point to it and say, "This is part of what you do as part of the engine of the UK economy. You use 200 companies a year and experiment with

new formats. Do you know what, you've got rather too many repeat-type programmes and successful programmes? Are you really doing enough on the experimental, risk-taking side? Are you really using the right range?"

Alex Mahon and her team have announced a number of initiatives recently to try to encourage and foster a range of new producers. One of the success stories for the UK is a lot of these small producers have become big producers or been bought up by big producers. It is a measure of success but also leaves gaps in the market for new companies to set up.

Q24 **Baroness Featherstone:** The Government, in their consultation on privatisation, which they published in July 2021, cited that the following changes are what are causing them to re-evaluate Channel 4. They listed them as increased global competition, changing viewing habits, declining linear TV advertising revenue and consolidation of the market. You just mentioned Comcast, for example.

In terms of evidence to date, Alex Mahon told the DCMS Select Committee that she sees, or has seen, no new or compelling evidence for privatisation. When she was asked what has changed in the last five years, she said that she thought the public service content had become even more important because of the proliferation of social media et cetera. Then again, with its owner publisher-broadcaster model, which sets it apart from everyone else, we heard evidence from Lord Burns, who told the committee that Channel 4 had not really been significantly affected. The question is really whether you would like to give an overview of change in the market over the last five years and the effect, if any, on Channel 4.

**Kevin Bakhurst:** The Government are correct in setting out those changes in the landscape. Clearly, we all know that there is significant competition from new global players in the market.

**Baroness Featherstone:** I subscribe to many of them.

**Kevin Bakhurst:** Yes, we all do, or most of us do. Technology has changed fundamentally and is changing all the time. How audiences receive and pay for content has changed fundamentally in the last five years. I think we are going to see more big changes. Unusually you now have some really big global players involved in distribution. You have Amazon, Google and so on, which are negotiating with the PSBs. It is a tougher market for them to negotiate, reaching audiences.

Audience expectations have changed. Dare I say it, society has changed and has become a slightly more noisy place to produce content, a more disputed place, with social media in the background and so on. There have been some real fundamental changes.

The one area that I might slightly disagree with is that there has been a long-term trend in spot TV advertising falling, but slowly. That is why Channel 4 has pivoted more to digital advertising and why it has driven more towards All 4, as I am sure Alex explained. It has already got up to

17% of its revenues from All 4, which is not insignificant. The Government are right to point out that trend. Whether it is a burning bridge right now, or whether you are legislating for the next two years or the next 10, that is a policy decision for the Government, I would say. Kate, what have I missed out?

**Kate Biggs:** The only thing I would add to that is that some of those trends affect all broadcasters, PSBs and non-PSBs. Our observations would be in terms of investment and genre mix. The PSBs remain very distinctive in terms of volume and spread, the range of content. Your SVOD services are typically more US-based content, although it is growing in terms of UK. It tends to be focused on drama, comedy and sport in the multichannel and SVOD sector. You do not see the great breadth of UK-commissioned content that you do on the PSBs.

The only other thing I want to quickly add is around the distinctiveness of Channel 4 in the PSB ecology. It is not just around the publisher-broadcaster model. It is also around the not-for-profit but ad-funded. That slightly changes some of the incentives and behaviour, compared with a publicly funded one such as the BBC, and obviously ITV, STV and Channel 5 on the fully commercial side.

Q25 **The Chair:** One other thing that has changed in the last five years is that production costs have escalated enormously. Production inflation is very high. We saw that in our previous inquiry and I think you came and talked to us about it. Some incredibly significant drama productions are made in the UK by SVODs, but that has pushed up the production costs for PSBs and for Channel 4 in particular.

To some extent, the BBC and ITV suffer that escalation in production costs, but at the same time they own the rights or a share of them. That is obviously significantly important to them. In the case of ITV, it has a significant production business so it can make its own content in that environment and hold on to the rights or sell them. None of that applies to Channel 4. It is suffering the massive escalation in production costs but it is not able to benefit, because of its business model, from the potential commercial value of that. On the face of it, is that a threat? Is that something that has emerged in the last five years that is a threat to Channel 4's business model?

**Kevin Bakhurst:** I am not sure I would say it is a long-term threat. It is an issue for Channel 4 to deal with. If you look on the flipside of that, there is a whole range of new producers who you can do co-productions with. There are new ways of funding some of this type of content. You can choose to get out of some of the really high-cost content into other areas.

Drama is a very good example of this. You may not be punching toe to toe with Netflix on making "The Crown" or whatever it is, but on the other hand there is the idea that there are lower-cost UK dramas that are very British. You have already mentioned "It's a Sin". I am sorry to go back to it, but it was so good. It is the sort of drama that maybe the

SVODs would not be that interested in making because it does not have so much resonance elsewhere.

It is very underestimated, but there are long-running dramas such as "Brookside"<sup>2</sup>, which the audiences really value and are still watched by significant numbers. There is much less competition in those areas. You can choose to invest in other genres if you are getting priced out. The other thing is you can do strategic partnerships, as Channel 4 has done with Sky, which is most welcome. I think the BBC has announced it today and ITV has already done it. There are ways of ameliorating some of those impacts. I do not want to understate those impacts, but there are some opportunities on the other side of that as well if you are a smart organisation.

**The Chair:** Would you agree that either owning a production business or owning rights gives you a better hedge against those increased costs than not having that in your business model?

**Kevin Bakhurst:** It is very interesting with Channel 4, because it is not totally precluded in its current licence from owning production rights. In the end, Ofcom can agree to it, but it has never asked us. It has made it crystal clear that it does not want to.

Q26 **Baroness Buscombe:** This is just a thought. At the end of the day, one of the key changes that I can see, looking at the evidence, is who is watching Channel 4. Surely this is what we have to come down to in terms of changes, viability and so on. We have heard from you and from witnesses last week that there is a strong, distinct focus on young people. We appreciate that there is a strong focus on young people and that has been right from day one, but I read something here in front of me saying that the average 16 to 24 year-old watched Channel 4 for four minutes a day in 2020, compared with 13 minutes in 2010. The number of young people watching television, and watching Channel 4 in particular, is on a downward trend. Change one thing—impact—and the outcome is quite disturbing.

**Kevin Bakhurst:** It is, and those figures are quite stark. The figures I have for Channel 4 on these age groups are that it was reaching 45.1% of the 16 to 24 year-old age group in 2015 and it is now down to 34.9%. That is another way of showing that fall.

As I said, it has pivoted very successfully towards reaching audiences via All 4 and on demand, and investing in distributing its content on social media, where it has been one of the most innovative of the UK broadcasters in terms of reaching audience with their content. It has hundreds of millions of users or viewers of its video content on Snapchat and Facebook and so on, so it has been ahead of the curve.

Also, it has done extremely well with All 4. I cannot remember the exact figure: I think it is about 50% of the registered users of All 4 are in that younger age group. This is a challenge for all linear TV stations at the moment and is partly due to the competition of SVODs and so on, the

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<sup>2</sup> Amended by witness: I intended to say "Hollyoaks" here instead of "Brookside".

choice, and the amount of gaming and all that sort of thing. The choice is huge. It has never been better for audiences to choose, in a way, but it is how you reach the audiences: is your content compelling enough and which techniques do you use to reach them? Channel 4 has a pretty good record of innovation on that front at the moment.

**Kate Biggs:** You hit on a very important theme for us on how you measure impact when some audiences—a large share of the audiences—are now getting value from content on Snapchat, through TikTok, through SVOD services, as well as BVOD, the ad-supported, and linear TV. How do you get a complete picture of that? Currently, our measurement tools are sort of comparing apples with pears. We are working with industry—not just the broadcasters but the ad industry—to understand how you take a more holistic view of the impact that content can have across all these platforms. We have to be very mindful that young people can derive value from Channel 4 in a number of ways.

**Q27 The Chair:** We have stats everywhere, but do you happen to have, or have in your head, the number of minutes per day that young people, 16 to 34 year-olds, are using All 4? I think we have seen some audience numbers, but do you have any?

**Kevin Bakhurst:** The only figures that I have in front of me are the ones that you would already have, which are in the public domain. We can certainly go back to our market research people and give you in depth what figures we have about younger audiences, if that would be helpful.

**The Chair:** Thanks very much.

**Q28 Lord Griffiths of Burry Port:** Some of the statistics I was going to make a very powerful point with have already been adduced, but I will do my best anyway. It is the figures with young people that alarm me. If I may be personal for a moment, my street cred was never higher than when I made two appearances on “The Big Breakfast”, one when I was interviewed by Zig and Zag. I just missed Lady Gaga on the bed—I was glad about that; I think I would have suffered irreparably. I know that young people everywhere were watching that and talking to the kids at school. They would come home: “Is it true that your dad was on...?” and so on and so forth.

Things have changed so enormously since those halcyon days—for me, that is—and it is difficult to see just how you reproduce or recreate that kind of excitement and attraction on a television channel. I note from various things that have come my way that Channel 4’s traditional sources of income were advertising, sponsorship, the sale of different programmes and products and these on-demand videos, much of which, unlike “The Big Breakfast”, is beyond me. It is a real thing.

If, on economic grounds, it proves to be unviable to take the channel forward without a massive redefinition of its remit, how would that leave it fitting into what I have always thought of as the architecture of public service broadcasting? If you take Channel 4 out, you are taking

something quite fundamentally intrinsic to the whole architecture out. Would other channels make up the deficiency? Would it be sold, or would it require us to sell Channel 4 with a remit that in some way recreates that intrinsic togetherness of the total architectural theme?

It is not just a question of the bottom line. It is the social impact and the complete offering across all the channels. At Ofcom, how do you monitor—of course you must, because that is what you are there for. Am I making sense in terms of looking both at the big picture and at the economic viability on the street, in terms of economics, income and expenditure and so on? That is what I would be concerned about: what happens if it goes. Where does it leave us?

**Kevin Bakhurst:** There is no doubt that there are some genres that Channel 4 plays a significant part in delivering in the PSB landscape. Its news and current affairs offering is a really important part of plurality. It attracts different audiences and it is very trusted by those audiences for providing alternative views that are independent of politicians, dare I say it, and of business leaders.

There is no doubt that, if you change the remit in a particular way, you could leave some gaps in the provision of particular genres of programming. It does a lot of current affairs. ITV does much less current affairs than it used to do and Channel 4 has just recommitted to more "Dispatches", which we have talked about before. You are absolutely right: these are some of the things to consider.

In terms of the cut-through programmes, I am sure many people have already said this, but it is really important to Channel 4 that, to sustain and pay for some of the expensive, less high-audience programmes, it still has some cut-through programmes. It does not have "The Big Breakfast" any more, but it has programmes such as "Gogglebox". If you appeared on that, your grandchildren might see you.

**Lord Vaizey of Didcot:** This hearing might appear on "Gogglebox".

**Kevin Bakhurst:** "The Great British Bake Off" obviously has been a big success for it and cut through, particularly with young audiences as well. It still has some big moments. We saw how it can have with some sporting moments as well at the weekend. It is very much able to cut through still.

To come back to the previous point Lord Gilbert asked about All 4, I just found one figure. The figure we have is there are 24 million viewers registered for All 4, including 80% of 16 to 34 year-olds are registered for All 4 in the UK, if that is a helpful extra figure. I do not know whether that is a new one.

**The Chair:** I think we have that. I was wondering how many minutes a day those people registered watch it. Did they just register once and not go back?

**Kevin Bakhurst:** We will try to find what we can give you on that.

**Kate Biggs:** On the sustainability point, we have not had cause for concern around financial sustainability to date. We observed that it

responded quite quickly and effectively to the sudden downturn in the ad market last year. We steer clear from making predictions on how the ad market might evolve over the next five to 10 years. It has set quite challenging targets for itself around growing digital revenue, which seems in line with other broadcasters and commercial necessity as we look forward.

On that point on media plurality, while one could ask another PSB to do more of X or Y, would they do it in the same way? Our audience research suggests that people have different brand associations: "Channel 4 is for me. The BBC is not for someone like me". For right or for wrong, audiences have brand associations. I do not think you could assume that another broadcaster could do exactly the same, or would have the same appeal.

**Q29 Lord Stevenson of Balmacara:** It is such an interesting part of this conversation, I want to take it a little bit further. In some ways this conversation should have happened, we think, about 10 years ago, because we all assumed that there would not be any linear broadcasting of any capacity at this stage, and yet here we are, although the figures you have given are sort of ridiculous: 2% of a viable population watching a programme is not going to convince many people that the world is doing well.

I want to probe one thing. You also say that it does not really matter how they are consumed, provided the production of these programmes continues to engage with that particular remit focus for Channel 4 that we have all agreed is part of the ecosystem that we are trying to protect. Is that sufficient an argument for Channel 4 in its present mode? I do not have an answer to that. I would like you to speculate a little about that, if trends continue and numbers drop but consumption of programmes still happens through other types of viewing and watching.

My children are still young enough to be able to fall into the categories you are talking about, but they never watch linear television. We do not have a linear television: they all watch what they watch on tablets, but they get the same benefit and enjoyment, and the same conversations take place around the dinner table on the programmes we have all consumed in different ways. Is that where we are heading and does that matter? Do you have any thoughts on that?

**Kevin Bakhurst:** As Kate touched on before, Ofcom, across the piece in its regulation of broadcasters, is trying to look at the different ways that the broadcasters, and the public service broadcasters in particular, reach audiences. We are trying to regulate in a way that recognises that the value of watching a drama on All 4 is the same as the value of watching it on the linear channel. We are trying to take a more holistic view of what the Channel Four Television Corporation as a whole, not just Channel 4 the channel, is providing to audiences. It has a number of channels and a number of ways of delivering to audiences.

I worked at the BBC for 25 years and the death of linear broadcasting was always predicted during that period. That was quite a long time ago

now and it still has not quite happened. In fact, the BBC is about to try to resurrect BBC Three as a linear channel. Part of the reason for that is that there is a certain power in linear channels and certain programming does really well on live linear channels: news, current affairs.

**Kate Biggs:** There is also episodic stuff: some reality shows, soap operas. It might not be everyone's cup of tea.

**Kevin Bakhurst:** Social media has sort of reinforced that sometimes. People want to be part of the conversation, if they are young, with friends about it as it is happening, whether that is "I'm a Celebrity... Get Me Out of Here!" or anything like that. They try to watch it live. Sporting events obviously still deliver big live audiences.

One of the arguments the BBC has put to us that we are considering at the moment about BBC Three is that it is considered as a sort of showcase if you are on a linear channel. It provides an extra showcase for independent producers, writers and actors. They like to say, "I am on Channel 4", not just, "I am on an on-demand service". Maybe that will change in time, but linear channels still have a value. We try to see it more and more as a whole actually.

**Lord Stevenson of Balmacara:** There is the reverse of that in some senses. The trick in Channel 4, which I do not think any of us who were involved at the time it was being discussed and launched noted, was that the real efflorescence of creativity has come from the ability of the independent producers to retain a share of their programmes. Presumably there is an element there where the value of that on-sale, which the independent producers are able to live off, comes from it being on a linear broadcaster first. In other words, it is a marketing bit as much as a simple consumption bit.

**Kevin Bakhurst:** Yes, that is very much the argument that the broadcasters try to put. When they are doing a deal and they want to pay for linear rights, they try to make that point, which is you enhance the value of it by giving it a status. Then you can flog it on.

**Lord Stevenson of Balmacara:** I am asking about that in a regulatory sense. Does that influence how you look at that?

**Kevin Bakhurst:** Yes. I do not think there are facts and figures to prove that it enhances the value necessarily. That is a current discussion between the broadcasters and PACT as to how much exposure enhances the value. The evidence would seem to be that it enhances the value if you give it a shop window like that, but I would not say it is definitive.

Q30 **The Lord Bishop of Worcester:** The Government's case for privatisation rests on the question of viability. We have heard a variety of witnesses. It seems that the jury is out on that. We have had discussion today. We have a number of witnesses who have urged caution because of the distinctive contribution that Channel 4 makes to the ecosystem and how tampering with it might damage that ecosystem, perhaps irreparably.

There is also the whole question of public service value, and we have

heard conflicting reports about that. You will know that David Elstein, from his appearance last week and his written evidence, suggested that Channel 4 is not living up to what he thought its public service responsibilities were. He also suggested that it might be possible to increase its public service value through privatisation, particularly if the legal framework for any potential purchaser were to be very clearly set out with responsibilities. Back to the ecosystem question, there might be the possibility of setting aside a fund from privatisation, sale and so forth, which you will have read. To what extent and by what means could the public service value of Channel 4 be protected if it were to be privatised?

**Kevin Bakhurst:** It comes back to the earlier discussion about how you want to regulate, building in the right incentives and putting in place the right, firm quotas, where you do not think the broadcaster is delivering or will deliver. I have to say I slightly take issue. I read David Elstein's evidence about Channel 4 and there is nothing like an ex-broadcaster calling for more quotas for broadcasters. We try not to approach it in that very slide rule-type way. I do not think that helps foster creativity.

In our view, it is much better to say, "There are a few baseline quotas you need". You want to make sure, say with Channel 4, that there is a certain amount of original productions, a certain baseline for them to produce around the UK. These are very critical things for UK plc. If you try to say how you produce educational programming or what the exact balance has to be between factual and drama, in my view you are then starting to get into the realms of the regulator running the broadcasters, which I can tell you would not be a good outcome. If it was in too much of a hands-on, restrictive way, it would not be a good outcome for creativity.

We do not hesitate to step in where we have to. We have this constantly with the BBC about whether we put things in the operating licence. Is it necessary? It is constantly there. If they are not delivering, or we think they are not going to deliver, we will put things in, and we have done.

**The Lord Bishop of Worcester:** David Elstein apart, do you think it would be possible for the public service value to be protected, one way or another, maybe in the light-touch and more liberal fashion that you are suggesting, if Channel 4 were to be privatised?

**Kevin Bakhurst:** Yes, absolutely. Whether you can maintain the culture is a different question. In terms of the public service remit, delivering different types of things, of course: we do it with a whole range of companies and broadcasters. We can do whatever. You can ring-fence spending on news and current affairs or you can ring-fence hours. There are all sorts of structures you can put round stuff. For me, the question is more whether you are really fostering the creativity that leads that to be delivered in a really engaging and interesting way. How do you do that? That is slightly more challenging for regulators, I guess.

**Kate Biggs:** There is a relationship between public value requirements and cost. Anything is possible: you could strengthen the remit, but is that commercially attractive for a potential buyer, depending on which

ownership model the Government decide to pursue? In our mind, we would reflect on our experience with Channel 3 and Channel 5 licensing, where we have to consider the relative benefits and costs when looking to award a 10-year licence. Channel 4 is currently different, in that its licence rolls over a bit more.

**The Lord Bishop of Worcester:** Can I take us back to David Elstein for just a moment? One of the things he alleged was that Channel 4 is in permanent breach of the requirement that at least 50% of its production should be European. Is that the case and is Ofcom concerned?

**Kevin Bakhurst:** Yes, I read that. I am not sure it is the case. We will have a look at it. I rather doubt it. It depends what you qualify as "European".

**Kate Biggs:** I think it was on only one particular channel of its portfolio. It is not Channel 4. From my recollection, it might have been E4 or More4.

**Baroness Bull:** I think it was E4.

**Kevin Bakhurst:** For Channel 4, I think that is impossible because of the level of original production it has to do.

**Kate Biggs:** There is a carve-out under the rules, depending on the editorial nature of that channel, of whether we think it is reasonable. For channels that might specialise in US content, it is reasonable that they do not meet those European works requirements. It is something we keep an eye on, because it is our duty to, but it is also where we have to use our regulatory judgment about when it is editorially reasonable for that channel to look and feel a bit different.

Q31 **Lord Vaizey of Didcot:** I should probably know the answer to these two questions, but just for information, when you talk about renewing the licence, you have a consultation but the Government have quite a lot of input into the terms of Channel 4's licence going forward.

**Kate Biggs:** The Channel 4 process is quite different from Channel 3 and Channel 5 in so much as we do not advise the Secretary of State around the sustainability of the provision, like we do on Channel 3 and Channel 5. It is more for Channel 4, given that more of its remit is set in legislation.

**Lord Vaizey of Didcot:** Where does your competition role begin and end, should, for example, a UK broadcaster decide to purchase Channel 4, compared with the CMA?

**Kate Biggs:** There are ownership rules, but in terms of merger and acquisition it would be the CMA and then, I think, up to the Secretary of State whether they want to refer public interest to us or not.

**Kevin Bakhurst:** Yes, that is right.

**Lord Vaizey of Didcot:** What if the Secretary of State decided there was a competition issue?

**Kevin Bakhurst:** I think the Secretary of State has discretion over whether there is a public interest issue.

**Lord Vaizey of Didcot:** That is when it comes back to you.

**Kevin Bakhurst:** Yes. The sale of Channel 4 would automatically go to the CMA, if it was sold, because it has a turnover of over £70 million, as you know.

**Lord Vaizey of Didcot:** I did not know that.

**The Chair:** Kevin and Kate, thank you very much indeed. It has been a very useful session. I think there are one or two things for you to follow up on for us. If you could get those to us soonish, because we are going to have quite a short inquiry, that would be great. I appreciate your time with us this afternoon. That concludes this evidence session.

**Kevin Bakhurst:** We are intending to write to you, setting out our responsibilities around Channel 4, so hopefully in the next few days if that will be useful for the committee.

**The Chair:** Thank you.