



Communications and Digital Committee

Corrected oral evidence: The future of Channel 4

Tuesday 12 October 2021

3.50 pm

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

Evidence Session No. 7

Heard in Public

Questions 51 - 60

Witnesses

I: Alex Mahon, Chief Executive Officer, Channel 4 Television; Charles Gurassa, Non-Executive Chair, Channel 4 Television.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Alex Mahon and Charles Gurassa.

Q51 **The Chair:** We move from a former chair and a former chief executive to the current chair and current chief executive of Channel 4. Welcome. Thank you very much for coming along and giving us evidence. Alex Mahon is chief executive of Channel 4, and Charles is current chair of Channel 4.

Shall we start by exploring the business model? I am keen to understand why you see the world so differently from our immediate previous witnesses, who disputed whether Channel 4 was likely to face rapid or slow, agonising decline, but none the less saw serious decline ahead of Channel 4 on the basis of its current business model.

Claire Enders, who is an undisputed analyst in this area, had a quite measured view of the future of Channel 4. She felt that you could carry on as you are. It would be a bit unexciting and you would deliver your remit for some time. But there was a much more exciting future for you in which you invested in your own material, produced content for others and, perhaps most convincingly for you, got the Government off your back. That would galvanise investment and came with a change in ownership model.

I have read both of your submissions to DCMS and to this committee, and you do not seem to see any upside at all in the privatisation of Channel 4. You have considered it and rejected all arguments. I just wondered, Charles, as chair in the boardroom—and presumably you authorised both these documents; these are both board-authorised documents—whether you saw any upsides for Channel 4 in a change in ownership model or in addressing some of those issues around the publisher model, or whether you rejected them.

Charles Gurassa: As a board, our job is not to take a position on ownership. Ownership is ultimately a decision for Parliament. Our role as a board is stewardship of the organisation that exists, to ensure that it is long-term sustainable and delivering the public remit that Parliament has asked us to deliver. That is what we, in governance terms, see that Alex and her excellent team deliver.

In response to the latest consultation, which is the second in my tenure and, I think, the fifth in the history of Channel 4, we as a board looked at a document that was issued by government. It was something of a surprise to us, because it was not a policy issue that had emerged as part of any manifesto leading into the last election. It emerged without any warning. DCMS, led by the then Secretary of State, had formed a view that privatisation was potentially the best outcome for the future of Channel 4. As a board, our view is simply to advise all interested parties of our analysis of our current status, and the potential implications of different change.

When we looked at the consultation document, the consultation presumed that privatisation was the best answer, and we puzzled about

that. We thought it would have been perfectly reasonable for the document to say, "We should look at all options for Channel 4, including privatisation, and we'll look at the evidence and analyse the pros and cons of each", but it did not. It said, "The answer is probably privatisation".

We then asked the question, "It's for government to form the view, but what's the evidence and analysis that supports that position? Where is the detailed insight that has led them to that conclusion? What is it about our current model, our current sustainability and the analysis of the future that leads to the conclusion that this is the right answer?" We could not find any. When we asked, there was not any.

When we looked at the issue, we recognised that there are a series of risks in terms of change of ownership, and you will, I am sure, have heard of many of these in your own evidence. We look at the facts of the current situation, which are that Channel 4 is performing the best ever in its history. It is not just performing well; this year, it will be the best ever. Despite all these cataclysmic descriptions of the environment in which it is operating—global players with their absolutely huge war chests of investment in content, the very considerable domestic competition, and the move of young people on to digital platforms and YouTube—we are, this year, going to produce the best results in our history.

Not only that, but we are delivering growing audiences and cut-through creative content, and, importantly, leading the way among terrestrial broadcasters in delivering content digitally in a format that particularly young audiences want to consume. Our growth in that area—and I am sure Alex will refer to this later—is spectacular. It is another 30% this year.

Let us sit back and ask, "What's the issue here?" Is this organisation, as we heard from the previous witnesses, on the cliff edge and about to fall off it? Just to put the record straight, given some of the previous comments, we talk to external advisers, not just our internal colleagues. We talk to the Claire Enders, the O&Os and all the famous names in the media industry to get their views. We do not see that cataclysmic drop-off. We see a changing and highly competitive market, but we also see that Alex and team have put together a very well-thought through and, at present, well-delivered strategy called Future4, which is delivering an effective digital future and growing our income and audiences.

No board can ever be complacent. We sit there and worry about this stuff all the time. Twice a year, we sit together in strategy sessions, where we question and challenge ourselves. We stress test and look at worst-case scenarios. We look at how our competitors might behave. We get external speakers to come in and challenge our orthodoxy. Our analysis to date has said that this is an organisation that is performing well, is delivering its remit and has a road map and strategy that will enable it to continue to be effective and sustainable, and to deliver its remit.

The Chair: That is what Claire Enders described as "surviving".

Charles Gurassa: I do not equate “surviving” with our best year ever in history. We will end the year with £280 million of cash in the bank, a balance sheet and net assets of more than £500 million, no overdraft, growing audiences and growing digital. That is better than surviving.

The Chair: The board is convinced that Channel 4 is sustainable in the long term, that there is no need for any modification of its model, that it would not deliver better on its remit as part of a bigger group, and that it would not benefit from galvanising investment through a different model of ownership. You have considered those options and rejected them. You do not think that they would improve the long-term sustainability of Channel 4.

Charles Gurassa: There are three points there and you have to look at each one individually. If you start with the question of ownership of IP, this is a matter for government. Channel 4 was set up as a catalyst to provide investment for the UK creative industries, and has done that brilliantly over its history. Many billions of pounds have gone into small indies, some of which have become, as we heard, big indies, but the next generation of small indies are coming along. We are still a very important part of that food chain today.

Could government change that? It could. It is not a question of ownership but of policy decision for government as to whether you still consider that an important economic and strategic role that Channel 4 plays in the broader ecosystem of the UK’s creative industries.

The Chair: As a board, have you ever discussed that option and considered whether you might approach the Government with a view to relaxing that provision?

Charles Gurassa: We do discuss it and, at the moment, we think that the model works well. Having us as a funnel of investment into the independent creative sector works well for the UK and for us, because we build strong relationships of trust with the next generation of independents who build their business. You just have to look at the successes of Film4, for example, where some of the best British talent has come out in the last 15 years, because we backed early-stage film directors—the Danny Boyles of this world—who have gone on to be global megastars.

The second question was about investment and capital. We have plenty of capital. We have money that we are not using. In fact, even under the current restrictions—and there are questions about why those restrictions exist—we could borrow another £200 million on top of our £500 million assets. If we have either profitable or remit-enhancing ways to do that, we, as a board, have said very clearly to Alex and her colleagues, “You have our full support to make the case”. The idea that we are somehow capital-strapped does not bear scrutiny. We have plenty of cash. It is growing. The challenge for us is how we find ways to deploy that, consistent with long-term sustainability and our remit.

The third question is whether we would prosper in a bigger organisation. We have real questions about that from everything that we have looked

at. One of the great things about Channel 4 is that it is small, nimble and agile. It does not have big overheads. It does not have a big in-house production facility that has to feed the monster all the time in order to cover its overheads. If things go bad, we cut costs quickly, as we saw in the pandemic.

To give you an example, I spent a lot of my life in the aviation industry, which is a nightmare when things go wrong, because you still have lots of aircraft and pilots, and you cannot just get rid of them. We do not have that. We do not have that in-house, fixed asset base. This is a very flexible and agile model.

If we went into a big organisation—and I have spent 40-plus years working with big organisations—the desires and demands of the big organisation would overwhelm those of the small organisation. I will give you an example. I used to chair a company called LoveFilm, to which some of you may have been subscribers years ago. LoveFilm was Europe's Netflix. We were the biggest provider of over-the-top entertainment in Europe. We eventually sold to Amazon. The sales process to Amazon was extraordinary. We were the market leader in Europe by a country mile. Netflix did not exist in Europe.

It took five months to negotiate the reps and warranties, because the corp development people in Amazon wanted to cross every T and dot every I, and had to go back to Seattle. Eventually, the deal was done, and guess what? Who is the biggest streamer today in Europe? It is not Amazon Prime but Netflix. It is the old line: if you make love with an elephant, however well intentioned the elephant is, you get squashed. The risk for Channel 4, a small and nimble organisation, is precisely that.

Q52 The Chair: Is it not true, though, that it is the ability to make, own and sell content in the modern era that guarantees your future, and that you benefit from the global demand for British content?

Charles Gurassa: No, I do not think it is true. I do not think you can take that as a de facto, given truth. There are businesses in this world that succeed at being vertically integrated and businesses that succeed by not being vertically integrated, and by being available to partner with the best of everybody. One of the interesting things that I have noted in my time as chair is that everybody wants to partner with Channel 4, because we are not seen as a competitive threat. It is no surprise to me that the tennis finished up, as somebody pointed out in the previous session, on Channel 4, because we are not a competitive threat. We are not someone about whom the folk in Seattle or in Sky worry on a daily basis. That is why we have a deal with Sky on Formula 1 and why we do joint productions with both Netflix and Amazon.

We are, in many ways, a unique creature. We are a sort of research and development arm for the industry, because we are asked by you to take risks and to work with new, creative, unheard voices. We take more risk in more areas than other channels that have to fulfil the requirements of their shareholders for their quarterly results. We are prepared to take

those risks. Sometimes, when they become hits, they go on to bigger global platforms, but that is a sustainable place to be.

The Chair: On the tennis, were you bidding against any other British PSBs?

Alex Mahon: That is always hard for us to tell, but I am aware that others put bids in. I do not know what they were. I do know that we won it because of our ability to move fast and to partner, and because of a proven model of doing that.

The Chair: It is not because you were prepared to pay more than other bidders.

Alex Mahon: I do not know what the other bids were. Shall I pick up on a couple of points?

The Chair: Pick up on a couple of points, and then I have some questions specifically for you, Alex.

Alex Mahon: I would like to thank the ex-stewards of Channel 4 for coming in. I have learned some things and I am doing my best to look after Lord Grade's pension. In all seriousness, although it is hard to reach agreement between Claire Enders's evidence, which was about micro-regulation, and Lord Grade's evidence, which was to have nothing on the remit, what is clear between all of us—and we would say the same—is that we should never seek to preserve the status quo. We should be about change, what more we can do and what we can do differently. Sometimes, that argument is lost when there is a belief that this is about staying in the status quo. Channel 4 is never an organisation that should be just about the status quo.

I will pick up quickly on a couple of points about sustainability. Channel 4 is in a very strong position for the future. This year, our revenues will grow 19% on last year, and more than 10% on 2019. Lord Grade raised the points about free-to-air broadcasting, and that is really critical. The reality is that free-to-air broadcasting is declining, so the only strategy is to switch your business to digital and to streaming. Let us be very clear about that. We are doing that more quickly than the entire market. Last year, our digital business grew at 30%. ITV's shrank at 5%. We grew way above market.

The Chair: By "market", you mean other PSBs.

Alex Mahon: Yes, but also streamers. Netflix's business grew on subscription level at 14% in the UK last year. We grew at 26%. This year, we are growing at 30%. BBC is at 8% and ITV at 6%. Make no mistake about it: we are switching the business to be digital first. That is why we are doing so well. That is the strategy we need to follow in order to succeed, but that is why, in the words of Lord Grade, we are defying gravity. That is the growth. It is about switching the business to digital, which is where consumers are. We have grown our business 4Studio. We have launched the Future4 strategy and we are ahead of plan on that.

I will address the point on scale quickly, because it is slightly a myth that scale is the only game in town. Picking up on that point, leaving aside

the Competition Commission, if we were to combine ITV, Channel 4 and Channel 5 now, we would still be less than a fifth the size of Netflix. We are not going to win a purely scale game. Our scale is in where else we invest.

There are questions about where the IP sits, where the production sector comes into this and whether we need small and medium businesses in the production sector. The way we have been set up is to put that money and recycle it into lots of small, medium and large businesses by letting them own the IP. That is where our scale sits. It does not sit within our company per se, but within those that we are an incubator for.

For government and Parliament, it is a question of choices. Do you want that to go on? Is that an important part of the creative economy in the UK? Is that important, particularly given what we do outside London? It is not a brass-plate myth, because we go in to check those companies and there is a set of criteria that are audited. Perhaps it was 20 years ago, or whenever Luke Johnson was there, but it is not now.

What we are talking about here is a question of choices for government and of priorities about what you want from this organisation and from the remit, and what you want it to do for the UK's creative economy.

The Chair: I am just working through in my mind what it is that you know, possessing all the information and data, that convinces you that the existing model is sustainable for the future. It seems to me that you are relying very heavily and, I am sure, reasonably on a switch to digital revenue. What data do you have that you can share with us about the volumes of that and the growth in your digital audiences?

When we spoke to Ofcom, it was unable to give us very much information at all about the number of people, particularly younger people, who subscribe to or are registered with All 4 and how much time they spend on it. You make a lot in your submission about the switch to All 4 and the way in which it is attracting younger audiences. Are you able to tell us how many young people use All 4 each day and for how many minutes?

Alex Mahon: Let me try to lay some of that out. I have come armed with facts.

The Chair: Thank you.

Alex Mahon: I thought it would be better than historical anecdotes. Oh, are the previous witnesses still here? Yes—I can feel their hot breath. The underlying question is about advertising. I am coming to the facts, but it is important to just pin this. The underlying question is whether you believe that a business based on advertising can survive, because that is the majority of our income. We are seeing much bigger businesses than ours—YouTube, Google and Facebook, dare I say the name—survive and thrive on advertising. In the last half, Google's advertising revenue was up 68%, so we have to ask ourselves the question of whether we believe that advertising is a strong fundamental business.

Indeed, there are many people in the UK—Claire Enders said in her report 8 million people—who do not wish to or cannot afford to pay for subscription services, so are very happy using AVOD services, as well as the people who use them alongside subscription. Digital growth for us in revenues is outpacing linear decline. Since I came in, in 2017, linear has dropped 2% in revenue and digital has grown 110%.

If you look at minutes per day that the average British consumer spends with us, it is still 23 minutes per day. When I came in, in 2017, that had been dropping and dropping. We have stabilised that because of our tremendous digital growth. There are many businesses that would be delighted if consumers spent 23 minutes with them a day, so it is important to look at that balancing up of the facts.

The Chair: That is across all your platforms.

Alex Mahon: That is across all our platforms, yes, but what you see is that switching. We are not losing minutage, and we are gaining money. Top-line growth this year will be £100 million up on 2017, so it is also wrong to say that we are declining.

If you look at All 4, which is our streaming platform, we have 25 million accounts on the latest count, which is tremendous. About 35% of them are young people. That is a profile that is more like Netflix or Amazon than the BBC or ITV. ITV's population is ageing in that sense. Our viewing accounts this year have grown 22%, and our weekly usage has grown 27%. I am focusing on these numbers because you asked for the detail. Viewing time is going up 45% year on year. I can give you how much of that is with young minutage; that is confidential, so I can give it directly to the committee. I do not want to do it in public committee because of my competition.

We are seeing growth there, and growth in terms of young people spending time with us. Last year, on television, of the 25 most young-skewing programmes, 21 were with Channel 4. It is really hard to go and get young viewers. You have to adjust the business. You have to do what we have done, make partnerships with Snap and TikTok, and learn how to adapt your marketing, your titles, your release patterns and what you choose editorially to get them, but that is where the growth is in the business and why the brand is very valuable.

There is a question there of whether you want that brand to be in public hands in terms of that value and that appeal to young people, or whether you want that value to be acquired by someone else. A lot of the programmes that we make are about our remit and are specifically focused on those audiences, and on social and cultural value to the UK in terms of how we reach them.

The Chair: Thank you for offering to share some of the granular detail with us privately. That would be very useful. I just have one final question before we move on. Do you have an estimate for how much the Government's proposed ban on HFSS advertising will cost the business?

Alex Mahon: When we last submitted data, off the top of my head, it was £42 million a year, but it depends on how much of that money is

then rerouted and how much of it we are able to gain in the market. When we did the direct year-on-year comparison two years ago, it was that. It is important to say that, when that ban comes in, it is done across all platforms simultaneously.

The Chair: Indeed, and this committee has made that point several times. That is the worst-case scenario, really.

Q53 Lord Griffiths of Burry Port: I have been allocated a question that has been answered several times and alluded to on several other occasions. It is all to do with whether Channel 4 would benefit from the ability to diversify its revenue streams, including through changes to the publisher-broadcaster model.

In a submission that you made, your answer to the same question was fairly straightforward: no. I am hoping for a little more than that. You are talking about the success you have enjoyed and are enjoying, and the diversification that you have alluded to. You said that the framing of this question around diversification of revenue streams means ignoring the numerous benefits of the publisher-broadcasting model, in particular the guarantee that Channel 4 invests in UK-made programmes produced by independent production companies, and that, over its lifetime, Channel 4 has invested £13 billion in the independent production sector at no cost to the taxpayer.

That is a benefit of not changing the model. There may be others and perhaps you would like to talk about them. It also begs the question of the previous person now lingering in the subliminal parts of the Room, who suggested that you are a station that is captured by the independent companies. I wonder if you could just flesh out some of that, and take what was poor stuff that I had to start with and make it into something much richer.

Alex Mahon: I used to run a big independent production company that was grown into a global giant and sold multiple times, which I was very happy at successfully selling, so it is not that I am against the private sector in any way, but it is a business that I understand well. Channel 4 as a buyer is very attractive to work with from the independent sector's perspective. The reason for that is that we let the independent producers keep the rights. That is part of our PSB remit and compact as currently constructed.

To me, this comes down to a question of priorities. If the priority is profit within Channel 4, remove the publisher-broadcaster status. If the priority is about how Channel 4 contributes to growing the sector, my recommendation would be you keep the publisher-broadcaster protection. Why do I say that? It is because, with the current structure as it is, it is very easy for small and medium companies to get started. It is very easy for them to have IP to trade off. If you look at the bigger companies, it is very attractive for them to work with us, because we give them a much better deal than Netflix. We do not give them as much money, but we allow them the ability to hold on to those rights and IP, and to export them.

We allow new entrants into the sector; we keep the barriers to entry very low; and we allow the big ones to make more money. That is how the structure works. It is a governmental choice as to whether there should be support for the small and medium businesses or there should not. Lord Grade is absolutely right: if you leave it without that, it will be dog eat dog, and people can fight. It is a big sector.

We particularly focus on the supply chain in the nations and regions. We are completely focused on regional investment now. We will spend 50% of our qualifying spend this year outside of London. That is how we are building up companies in Yorkshire, how we are doing it in Scotland and how we are changing the sector in all those places. Again, is it a priority or not to work in those places? The sector is not as developed, so a lot of work needs to go into how you nurture those smaller and medium businesses and how you grow them up. You have heard a lot of evidence from the independent sector, I am sure, about how they see its importance. They are not all motivated solely by the status quo.

We have independent evidence that shows what would happen if that was removed. You have independent evidence that we have commissioned, and independent evidence, which you might think is more independent, from Ampere Analysis and others; we commissioned EY to do it. That seems to show that £2.1 billion would be removed from the sector, that it would threaten at least 60 companies, and that it is likely that about 48% of content spend that Channel 4 currently spends would come out of the sector.

Again, it is for government and Parliament to judge what choices and priorities you want Channel 4 to deliver, but those would be the consequences if you currently removed it. The advantage to Channel 4 or to any private owner of Channel 4 is that there would be more profit. That is the trade-off that you would be going for.

Lord Griffiths of Burry Port: That is very helpful. I do not know whether the chairman would like to add to that.

Charles Gurassa: I would only echo what Alex has just said. If I was a profit-maximising business, if I owned the business myself and if that was my objective, yes, I would like to own more IP. If I was a publicly owned broadcasting corporation whose two rationales are to provide a distinctive, different and creative British voice in the media ecosystem and to be a funnel for support and investment in the best of the next generation of creative talent, I would not change it. That is not our decision, because we are a publicly owned business.

Lord Griffiths of Burry Port: None of that holds you in thrall as captives of the producers that you favour.

Alex Mahon: You would have to ask the producers, but I do not feel captive to them, and I do not think they feel they have us under their control.

Lord Griffiths of Burry Port: I did not think so, but I am glad to hear you say it.

Charles Gurassa: That is certainly not any feedback I have ever had.

The Chair: As someone who is always looking for a compromise, is there not a compromise that would work for you, which you could talk to government about, around allowing Channel 4 to make content and own rights while having stringent and significant quotas for small and start-up producers? Would that be the best of both worlds?

Alex Mahon: You absolutely could do that. Of course, you could remove the IP restriction without privatising. You could absolutely do that, but it is a question about the structure of the creative industries. There is an underlying question here about where we, as the UK, want to be able to help grow and nurture the creative industries. We must be careful not to go so far that, in five to 10 years, we have done something that has unintended consequences in terms of the creative industries. That is the balance you would be looking for in that choice.

The Chair: That balance could probably be struck.

Q54 **Lord Vaizey of Didcot:** We are crawling towards an interesting point. You may have heard me ask this of Luke Johnson and Michael Grade earlier. The trouble is that it is a binary debate. On the one hand, government wants to privatise Channel 4; on the other hand, Channel 4 wants to stay the same. What has been lacking to a certain extent is people coming forward with imaginative and, dare I say it, third-way proposals. We have danced around a bit with terms of trade. Luke Johnson referred to access to capital. All things being equal, if you do not mention the P-word, access to capital is a problem. Claire Enders talked about access to global technology. On opportunities to acquire, you might buy a podcast company, for the sake of argument.

If privatisation suddenly went away, what would be your ask of government to give you more freedom to operate as a media company in the current environment?

Alex Mahon: You are right to point out that, as previously framed, the consultation was framed a bit in terms of binary choices. Is that the most creative way of thinking? Where there is definitely a shared objective, of everyone, if I can search for one, it is making Channel 4 stronger. That is definitely shared by us and the Government, and it is broadly shared by the previous witnesses.

There are definitely things that could be done by government in terms of legislative protection. You have heard me talk about prominence before, but we should think about what the position could be as to prominence for Channel 4 and other public service broadcasters on different ways of distribution, on different types of televisions and on different operating systems. We have all made good progress in laying out what that might be. It is just not done legislatively yet. There is also the stuff about digital markets and what our commercial deals are with social media platforms and others. That would be real progress.

A lot has been talked about in terms of the remit. I should say that, broadly, we lay out the remit as innovation, experimentation, creativity

and appealing to distinct groups in society and the culturally diverse. The remit is also pretty clear. There are 15 remit points that are measured and 16 quotas. There is a very specific way of laying it out, but that could be updated.

Lord Vaizey of Didcot: It could also be simplified.

Alex Mahon: Yes. Of course, sometimes, the closer one gets to simplifying it, the harder it is. If I pick on one point, for example, everything that we are doing digitally, which is the strategy about how to appeal to young people and how to stay in touch with UK society, does not count. We are only measured on a linear basis. The more and more we push the business to digital, inevitably the less well we are going to do on linear, because we are purposely self-cannibalising to keep up with where the audience is. That does not count for our Ofcom numbers. There is an evolution there with Ofcom that would really help.

There are then the things that could be more about what we could contribute to the UK. I would really welcome discussing them, as I am sure we will do with the new Secretary of State. When we think about regional investment and the fact that we are training 15,000 young people in the industry a year—we have just tripled our commitment to that—and bringing in working-class and ethnically diverse people to the UK industry, what else could we be doing? There are other directions that we could go in, in terms of updating—

Lord Vaizey of Didcot: Should there be more freedom to borrow or take a minority stake?

Alex Mahon: There are definitely complexities to any of our borrowings sitting against the public balance sheet, which do cause problems for government. It is always worth investigating whether they could be removed.

Q55 **The Chair:** I am wondering why, in your response to the consultation, you did not sketch out that there might be a third way to achieve the Government's stated aims, which you say you share and you believe our previous witnesses share. You just comprehensively rejected all the Government's arguments and you did not put forward the third way. Is that because you did not think it was an appropriate response to the consultation or because you had not worked up a third way? Would you welcome a proper opportunity to review the future of Channel 4 in the light of the rapidly changing world in which we live and what we all want from the whole PSB estate?

Alex Mahon: In the response to the consultation questions—Charles will probably add to this—we tried to be very factual, rather than theoretical on what other options could be, because it was quite a strictly worded consultation. We have tried to be very clear in laying out the facts, as researched by data and evidence, and therefore think about what the choices and priorities might be in giving government the evidence for that.

There are real risks, as are currently laid out, about how privatisation might impact the things that are beneficial about what the current remit delivers. Remember that, as board members, we are here to deliver the remit to the best of our abilities as laid out currently by Parliament. We have to try to provide advice on what the consequences of different choices might be. As we see it, there is a real risk that, if a private owner came in, they would be naturally minded to maximise profit, and that would have a negative impact on the types of content. It would have a negative impact on the production sector, as we have talked about. We have to be clear about that, because it impacts SMEs and out-of-London producers. We have been clear that there would be a real risk of impacting our work in the regions, which we have only just started. We have only just opened our big office in Leeds.

There would be risks to bringing young people into the sector and innovation in British content. There are sets of content that we make that simply would not be made. You have heard about the Paralympics there, which everyone is now taking credit for, but there are other things that we do, whether it is "It's a Sin" or "Help", which we had on a couple of weeks ago, about the impact on the care system of Covid-19. These are pieces of social history in the UK that I do not believe would be made otherwise. Last night we had "Dispatches" investigating sexual abuse by currently serving police officers.

I do not believe that Netflix would be making those pieces. "Squid Game" is very, very good. It is very uplifting to see 250 people killed in the first episode, but they are not really focusing on the things that we are, such as those documentaries, or documentaries about stop and search or things that are going on in our country. That is important. We have tried in our response to focus on what the risks are in the choice that was laid out, not theories about other things. We would always welcome those discussions.

Charles Gurassa: I would be concerned if, on reading the response the board sent, the consultation and, indeed, all the conversations Alex and I have had with Ministers and officials, it was not clear that we are absolutely committed to a constructive and open discussion, looking at all potential issues that can deliver our shared goal of strengthening the ability of Channel 4 to deliver a remit as defined by Parliament for the foreseeable future. That is certainly in the letter I wrote. When I went to see the previous Secretary of State only a few weeks ago, I made it very clear that we would welcome that dialogue and we want that dialogue.

As Alex has said, no organisation can stand still. We at Channel 4 are conscious of that. We are willing to explore a number of the items and issues that you have raised as a group today and others. As Alex also said, there was a specific consultation paper issued, which came up with an answer to a question. We were not sure whether the question was the right question, and we needed to ensure that all the key stakeholders had the evidence and analysis that we could provide in forming a view.

Q56 Lord Stevenson of Balmacara: In our previous evidence session—you may have heard it—Claire Enders was talking about one of the side

effects of ownership by the Government. There is this idea, which is almost amusing in some ways, that our Government would be responsible for a company that was designed to irritate and annoy them. I pursued it a little bit and asked whether that was more than just the normal give and take of relationship or whether it could be political. I do not know whether you heard her say that, but could you respond a little bit on that? Is there any evidence that the ownership, which is vested by Parliament, by the Government of Channel 4 is causing problems in what you commission and what you screen? Have you been hauled over the carpet many times?

Alex Mahon: It is a complex question. We are an organisation that is set up to challenge the status quo. That is preserved in the ethos of the organisation. It is understandable, therefore, that we make the important programmes that we do. Often with many parties, and often with all parties simultaneously, we are unpopular. That is baked into the model.

I do not know what you were going to say, Charles, but I have never been directly pressured about any programme whatsoever. I have many friends in other countries who run broadcasters where it is completely the opposite. My friend who runs an Israeli broadcaster, who shall remain nameless, asked me how often I get phoned up by the Government about programmes. When I said never, she was utterly shocked. In other countries, it is a daily occurrence. It is a testament to our system and a credit to the different Governments we have been under that that has not happened to me, as editor-in-chief.

Charles Gurassa: No, I have never received a phone call from anyone in government. You can take that whatever way you like, but I have never come under any pressure or contact on anything to do with editorial.

Alex Mahon: The frequency with which the issue of ownership is raised is distracting for the organisation. It was raised last just before I joined the organisation. We created a very good strategy for changing the structure of the organisation and moving a significant number of personnel to the nations and regions, really shifting our focus in terms of what we are doing. We are part way through that plan.

It was only about three years ago that I agreed that plan. There is a negative NPV, off the top of my head, of about £50 million from us doing it. We are having tremendous success in doing it. By the end of this year, there will be 400 positions and 50% of the money was hit two years early. We have tremendous offices in Leeds, Glasgow, Bristol and Manchester. We are making an impact on companies all over the country. We have just tripled our commitment to training people outside London: 15,000 young people a year. You can bet that they are all coming from places that would not traditionally come into broadcasting.

It worries me that the carpet would get ripped from underneath that when we have barely started. That was an agreement that we made last time this was raised. It was not very long ago, so it is distracting for the organisation when we are trying to do a lot of other things at once.

Again, for government this is a question of choices and priorities. What do you want the organisation to achieve?

Q57 **Baroness Stowell of Beeston:** I do not know how fair a question this is, but would you have a different view on the topic of ownership if this question was asked post the review of public service broadcasting and the future of Channel 4 was considered in the context of the bigger picture?

Alex Mahon: It is a bit hard to answer that theoretically, having not seen the outcomes of the review. It is not yet published; it has not come out.

Baroness Stowell of Beeston: No.

Alex Mahon: It is hard to say.

Baroness Stowell of Beeston: I suppose this is what I am trying to get at. Inevitably, because the consultation is about Channel 4, the focus has been on Channel 4, but these evidence sessions, particularly today, have brought out just how big the question is about the future of public service broadcasting in the UK in particular. Whatever you think about the pros and cons about the privatisation of Channel 4, there is a big question to ask about Channel 4's role in that ecosystem or ecology, as indeed there is for other PSBs. Is it because it is all about you at the moment, as opposed to something that is bigger than you of which you are a part?

Alex Mahon: It might give us different views, I suppose. The question would be about what from that review we, in the broader sense, not Channel 4, want from the public service broadcasting ecology. What kinds of programmes do we want? Whom do we want them to reach? How do we want to protect them or allow them to occur? How do we want young people to come into the industry? What access or opportunity do we want? As an industry, we need to bring many more working-class people into the industry and make many more employment opportunities for people with a disability. Those questions are about how, as an industry, we are going to do that and make sure that public service content survives and thrives in the UK for British people.

The concern we have is that it is very hard to micro-regulate and legislate for Channel 4 to do those things, should it be sold. It is very complex to create legislation for those things. It is very hard to create some kind of regulation that says, "You will train this many people a year; you will put creative roles outside London; you will ensure for ever that 'The Great British Bake Off' is not behind a paywall". It is those things that concern us in terms of the outputs of public service broadcasting ecology that we might, as a society, wish to preserve.

Charles Gurassa: As you say, it is difficult to answer a hypothetical question. What I can say is that, as a board, we are custodians and stewards of your asset. Whenever policy issues emerge, our role is to share with you our thoughts and analysis of the potential implications, and it will be for you to make the choice. As you say, the context in

which this has been set is the future ownership of Channel 4. It has not been about the future of public service broadcasting more broadly. If that were to come out, it would raise a whole series of questions. Our job will be to share with you our observations and analysis of the implications.

Baroness Stowell of Beeston: In such a circumstance, you may be more open to the question of ownership, if you could see how it related to the future of public service broadcasting.

Alex Mahon: It is possible.

Charles Gurassa: To be clear, we have never been closed to the issue. It is not our role to be closed. Our role is to share with you our analysis of the potential consequences, and it is then for you as owners to decide.

Q58 **Viscount Colville of Culross:** Good afternoon. We have heard an awful lot of talk about remit. Your remit demands innovation; it appeals to a diverse cultural society; it is educational; and it is distinctive. You in your submission said that under the current model the remit permeates the whole of programming. That is quite clearly the case, if you watch the channel.

However, Claire Enders came to us earlier and said that there was no reason at all why the remit could not be maintained by a private owner. In fact, she said they would be mad not to keep distinctiveness. After all, that is what makes people watch a channel: that they have something the others do not have to offer. Why on earth would that remit not be possible to maintain under a private owner?

Alex Mahon: I have two broad points to make. First, you are absolutely right to pick up that the sense of remit permeates all the decisions that are made. I know that some people say that sounds woolly, but let me give an example from the Paralympics, which is an easy one to pick on.

In Covid-ravaged times, we had to decide whether we would go ahead with the Paralympics. Would we still broadcast it? Would we still spend lots of money on it? We made the decision to stream all 16 sports live, which, as you will notice, nobody even did for the Olympics. We made the decision to spend money on having 70% of our presenters as people with a disability, because we thought it would impact viewers. We made the decision to send 80 people to Tokyo to cover it so that we could get a better flavour of things editorially and to have a lot of our crew with a disability. Those decisions were fundamentally uncommercial. They were all things that cost us lots of money. It lost us plenty of money.

We made decisions about commissioning "It's a Sin", or the show I mentioned from last night, "Cops on Trial" or, from last week, "The Man Putin Couldn't Kill". We made the decisions about those things because we think they are important for delivering our remit. You would not do those if you had switched the prioritisation of the organisation to be about commercial return above editorial.

You would absolutely do things that still fit with the brand. Of course, you would still do "The Great British Bake Off"; you would still do

“Married at First Sight”. You would still do things that felt noisy and punchy with the brand, but you would not do a whole set of other things that we believe contribute to the social health and welfare of Britain. You certainly would not make “Help”, a drama about our social history. You would never make that. That is definitely going to lose money. There is a set of things that are quite important that would disappear, and then there is a set of things that we do that are completely outside the remit, such as the training of young people that I talked about, which you would never do because they are not captured anywhere. We do those things because our remit permeates how we make our decisions.

Viscount Colville of Culross: In order to keep that distinctiveness, why would you not look at what happens with Sky? Sky has Sky Arts. That is not commercial; it is a loss leader, but it brings in a different sort of audience. Why would a private owner not be prepared to bring in distinctive and different programming, even if some of it is at a loss, to make sure that channel has a distinctive brand that separates it from everybody else?

Alex Mahon: You might do some things that are distinctive, but fundamentally you are there to make money. I have run private companies. We spend a higher percentage of revenues on content than any other commercial broadcaster across Europe. Why do we do that? It is because we believe in doing the new things, the little things, the interesting things and the things that might turn into something over time. We believe in working with talent who are not yet established. They tend to lose money, but that is how all the new writers, directors and performers come into our industry. You would cut those things.

Viscount Colville of Culross: Surely you would have Ofcom making sure that the new owner stuck to the remit, and to the idea that you have programming that is distinctive and that has interest for our culturally diverse society. Why could that not be enforced by the regulator on a privately owned channel?

Alex Mahon: That is the core of the question about the change in incentives. The things in the remit are relatively broad in how they are laid out. To some degree, outside of the direct quotas of certain hours of programming, they are down to the interpretation of the executives in charge. The switch is that at the moment we put the broad public service remit above making a financial return. The commercial money comes in to service the public good.

When you go to a private company, you switch those things. You deliver to the quotas. We have seen Channel 5, for example, reduce by 73% its news in peak time, because it has been able to. You are driving commercial returns. You minimise down in order to tick the box for those things you have to do when you are delivering a return for shareholders. There is nothing wrong with that, but that is what your driver is. For us, that is not the driver. It is about how we interpret the remit and whether we believe we are making a positive public impact.

Charles Gurassa: I would entirely support Alex on that. I have spent 42 years in the commercial sector. That is my background. Of that, 20 years

was spent working for recently privatised business. They were right to be privatised, and they prospered in the private sector. They should never have been in public ownership, in my view.

It was very clear that our role in those organisations was to maximise the return for shareholders. Anything that potentially got in the way of that was under scrutiny. Some of it was removed early; some of it was removed over time; and for some of it we waited until the appropriate moment X years down the road, with new people in power, a new Government or new Ministers, and lobbied hard for the change. The team at Channel 4 starts each year by saying, "How do we deliver optimum public remit this year commercially?" not, "How do we optimise our commercial return and achieve the minimum level of remit requirement?"

If I look at it pragmatically, I am absolutely certain, if I had owned this business, we would not have done the Paralympics this year in the way we did the Paralympics. There would have been many less hours and much less coverage. There would have been some, but nothing to the scale, breadth and depth that happened. That is not a criticism; there are just different incentives at play.

Viscount Colville of Culross: What do you think about the idea of Lord Grade's that the main remit should be to be distinctively British? After all, in previous inquiries we have looked at the streamers. Even when the programmes appear to be based in Britain, they are aiming for a global audience. That is what the streamers are aiming for. Would not just trying to be distinctively British be enough to make you stand out and be an effective remit?

Alex Mahon: Are you suggesting that you would privatise the organisation, and then the remit that would have to be delivered, instead of the 15 remit points and 16 quotas, would just be to be distinctively British?

Viscount Colville of Culross: Yes, I would like your thoughts about that.

Alex Mahon: You might get a lot more union jacks. You could have a strong brand and a very profitable organisation, but probably with a very different calibre, quality and texture of output.

Charles Gurassa: Yes, that is right. The ability to interpret within that remit is huge and it is very different from what Parliament asks of us today. Today we are asked to look for new talent, to look for unrepresented voices and to take risk. None of that is necessarily required under that new banner. We could be very British without achieving any of that.

Being very British is really important; it is one of our core rationales, but the other parts of the remit go up to making it very distinct and very British. That is valuable. My observation is that we are very fortunate in this country that we probably have the richest media ecosystem of any country in the world. I do not mean to say, in a flag-waving way, "We are better".

As someone who has spent all his life travelling, I have not been in another country that has such a rich range of choice: global streamers, the BBC and strong commercial broadcasters such as ITV, Channel 5, Sky and Channel 4. It is a fabulous, fabulous choice that we give our viewing public, and much of it for free. That is a very important point that Alex made earlier. There are 8 million people who do not want to pay to watch television or who cannot afford to pay to watch additional television beyond the current requirement for a licence fee. We are in a fortunate position and we should treasure it.

Q59 Lord Lipsey: The bulk of what I was going to ask about was dealt with by Lord Vaizey's question. I want to raise something that both interests and puzzles me, and maybe it will interest and puzzle you.

There are a lot of people saying, "If it is going to be privatised, we must give it a really tough remit", or indeed, "If it is not going to be privatised, we must make the remit much more explicit and binding". I have my doubts as to whether the remit is what really matters. There is a case to be made that much more important is culture. What Channel 4 really has now is a culture that is distinctive. It is that that leads to the great ideas that lead to the great programmes. Nobody would be scared rigid in your organisation of asking, "What about making 'Help'?" It is a wonderful, extraordinary programme. Nobody else would have made it in that sort of timescale.

Therefore, I am asking where a bit of magic lies. Where does the magic of your culture come from? Might it be imperilled if there is some great change in ownership and remit that accompanies that?

Alex Mahon: Thank you, Lord Lipsey. This plays to the question you asked in the previous section about whether this risk is something you have to do. If you work at Channel 4—I am sure it was the same when all the other people worked there—there is something quite magical and special about the culture. It is not pixie dust, but there is something quite special about why people work there.

Despite the thoughts of David Elstein, they are not paid the most in the business. You are not paid what you would be paid in a purely commercial job. I know that because Netflix, Spotify and others steal my staff all the time with much more money, but people work there because they care about the public service impact. The principle of not being there for profit but being there for public service underlies that. Part of the culture is to make it a creative place that is full of innovation, is full of ideas and celebrates them and the impact they have.

Again, it goes to the question, "What are the incentives?" The incentives are about making that impact on UK society. That leads to trouble in some cases. It leads to brave programming, and it sometimes leads to programming that people ask questions about. That combination is quite magical in terms of the people it attracts. If you end up working at Channel 4, you care about all those things. You care about causing the right kind of trouble, about asking questions, about innovation and about creativity. That would change under a different model. It is not to say

that a different model would be right or wrong, but it would definitively change. You would not have that mix of creativity in programmes and people caring about the purpose of them.

It is broader than just the programmes. It is about people making choices about how to bring different people into the industry and change the mix of staff inside Channel 4. We had a day last month called Black to Front Day, where on the day all programmes were fronted by black talent, and we pushed to make the crews as close to 100% black behind the scenes as we could. We had all the adverts on the day reshot and done with black talent. You would never do that somewhere else; you would never have the bravery to come up with that idea. I did not come up with that idea; my staff did. That is something in the creative mix.

Lord Lipsey: Just to follow that up, it was suggested to me by someone in Channel 4, actually, that there is at present some difficulty in attracting, getting and keeping the best talent, largely because of the uncertainty caused by the Government's consultation. Do you recognise that thought?

Alex Mahon: That is absolutely true. The value of the brand, as remarked on by others, is intimately linked to the programmes, and that is intimately linked to the iconoclastic nature of the remit. They are all mixed together. When it comes to recruiting any senior staff member at the moment, I am asked to do the final chat and try to persuade them that it is going to be okay. I do my best, but that is really hard. It is really hard for people to take the risk when they do not have any clarity about the future of the organisation. It is the same for us in terms of doing partnerships or doing big deals right now.

There are pros and cons to being in public ownership. I totally accept that the Government have every right to look at this and ask questions about it; they should do. You should do, with a public asset.

Q60 **Baroness Buscombe:** I just want to be a bit brutal for a minute. We have just been through a really tough time with Covid. One of the few upsides has been that we have been stuck at home in front of our TV sets, our screens and all our different devices. I have discovered so much that I did not realise existed on our screens. The plethora of different programming across the world is extraordinary. I do not recognise what you are saying in some ways.

It was Luke Johnson about an hour ago who said that people do not know when they are watching Channel 4. They do not know what it is. When you cruise or surf—whatever you say—all the opportunities across the screens, you realise that the competition is huge. Michael Grade said earlier that your greatest asset is your brand. Why would anybody bother to buy you if they did not want to invest in all the good things that you do and make it even better? You are just saying that, as you are, you are very profitable; you are doing well. Why would somebody not want to help you make that even better?

Claire Enders talked about galvanising, not reducing, investment. She talked about new opportunities to try out different ways of creating a

different but much more sustainable future for these distinctive programmes that, over the past 30 or 30-plus years, have made Channel 4 what it is and could sustain it much better for its future, given that massive competition that is before our eyes, the wonderful and incredibly rich mix.

Many programmes that I have watched over the last two years are not necessarily making big profits. You tie the idea of privatisation to a very closed mind in terms of profit. I have worked for private companies. We do not always put profit first, because at the end of the day the best way to take something forward is to make it good: to make good content that people actually want to see. I am sorry. Do you have a response?

Alex Mahon: There are some very good questions in there. You are absolutely right: there is so much choice, and we are still—in that environment—growing. We are growing our top line 19%, we are £100 million up on revenues since 2017 and we are maintaining 23 minutes a day per person. That is spectacular and it shows the strength of our brand.

I do not have a closed mind to private companies at all. That is what I did for 20 years before this. I do not have a closed mind to making profits, and in fact that would in some ways be easier than this job. But you would make different choices. If I had taken this company private, the first thing I would do would be to pull out investment. I would not leave all that cash on the balance sheet. I would leave the assets there. I would definitely spend less on programming, because that is how you would drive a commercial return. We already spend far and away above market on programming.

It is incorrect to say that someone would spend more on programming. They might choose to exploit the brand elsewhere and to work out other ways of how to make money from it abroad. I absolutely agree with that. I believe it is incorrect to say that a different owner would invest more into the company in terms of programming.

Baroness Buscombe: Claire Enders is wrong.

Charles Gurassa: Yes, she is wrong. To your observations about content, the question is “What content?” There is lots and lots of content out there, but where is the British content?

Baroness Buscombe: It is on Amazon Prime: “Clarkson’s Farm”. It is happening.

Charles Gurassa: “Clarkson’s Farm” is a great example. We could produce a “Clarkson’s Farm” tomorrow. But who is going to produce “Help” or “It’s a Sin”? Who is going to do the documentary regarding sexual abuse in the police force?

Baroness Buscombe: You keep repeating the same few programmes.

Charles Gurassa: Who is going to have an hour’s news on at 7 pm? We have seen what Channel 5 has done. It has asked, “Can we reduce our news content?” It has done that, because it is not profitable. You are right: we could be private; we could be profitable. We could produce lots

of content that would be for the international market to maximise our returns. That is absolutely a potential, if government chooses that.

I would advise you to think about what you lose. This is a channel that is focused primarily on younger people—which is the most watched PBS among younger audiences. To change that is a big policy decision, which you need to think about carefully.

The Chair: Thank you both very much. Quite a few things strike me about this session. I would agree with Lord Vaizey that there is a real danger of this being viewed, including by you, as a binary choice. You referred to people being motivated by Channel 4 not being for profit but being a public service. If we were looking not purely at the terms of the Government's consultation on the future of Channel 4, but at what we all want from PSB, as part of the mix of content available to the British people, I wonder whether we would be having a more constructive conversation about the whole picture but also about your remit.

I also wonder whether a more productive approach, going back to another point that Lord Vaizey and others made, would be for a response from you that outlined how Channel 4 could thrive in a different sort of way. What things could be done to enable Channel 4 not to survive but to thrive that do not include privatisation but include a package of other measures that the Government should adopt? Those are perhaps areas that the Committee will look at in its deliberations. Are there any final comments from you on that? Then it will just be left for me to say thank you.

Alex Mahon: We would always be open to those discussions. They would be valuable. It would be helpful to think about what we should do in the future. I completely agree that we should not be involved in preservation of the status quo or preservation of the past in aspic. The questions are about how we can thrive and how we can do more for the UK.

Charles Gurassa: I entirely echo what Alex has said. Our intention in this process has always been to find a constructive dialogue that delivers the shared objective of a strengthened Channel 4. We are open to all dialogue on that.

The Chair: Alex Mahon and Charles Gurassa, thank you both very much indeed for your time this afternoon.