



HOUSE OF LORDS

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The Select Committee on Communications
Inquiry on
THE SUSTAINABILITY OF CHANNEL 4

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Questions 41 - 63

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Witnesses: David Abraham and Dan Brooke

Rt Hon John Whittingdale OBE, MP

USE OF THE TRANSCRIPT

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

Members present

Lord Best (Chairman)
 Earl of Arran
 Baroness Benjamin
 Baroness Bonham-Carter of Yarnbury
 Lord Goodlad
 Lord Hart of Chilton
 Baroness Healy of Primrose Hill
 Baroness Jay of Paddington
 Lord Sherbourne of Didsbury

Examination of Witnesses

David Abraham, Chief Executive Officer, and **Dan Brooke**, Chief Marketing and Communications Officer, Channel Four Television

Q41 The Chairman: I welcome David Abraham and Dan Brooke from Channel 4. We are delighted that you can join us. This is our last session taking evidence on Channel 4. We have had some very interesting witnesses before us and we are thrilled that you are here for our last day. You might want simply to begin. We will not worry about your biographies, we are sorted for those, but if either or both of you would like to opening statement to launch us, you would be very welcome to do so before we start throwing questions at you. So, please, fire away if that suits you.

David Abraham: Thank you very much, Lord Best and the Committee, for setting aside your time and attention in a period of some uncertainty for public service broadcasting in general and for Channel 4 in particular. We have been following the proceedings of the Committee, and clearly you have been looking in some detail at issues of ownership and the ownership models of Channel 4. This is a question that we, as chief executives throughout the last three decades, have had to consider and address. I have always been very comfortable in doing so, because Channel 4 is of course a public organisation that is underpinned by a very clear set of principles and ideas, and if we cannot explain why these ideas still matter in a world that is changing very rapidly, perhaps we do not have the right to continue with the model that we are working under.

The challenge is that our model is hybrid; it is perhaps somewhat more subtle and complex to the public than the one the BBC operates to, but in my view it is no less important because of that. We remain a big, critical investor in the creative economy—we spend some £700 million a year in it—as well as a small but, I think, perfectly formed British institution, a defender of

robust plurality in news and current affairs. We are part a national talent accelerator and part a defender of diverse audiences.

Channel 4 has been instrumental in developing over 300 of some of the best independent British films, including over 19 Oscars and counting, and we have been introducing British audiences on television to extraordinary creative breakthroughs such as fixed-rig filming, for example, in documentary genres and Paralympic sport. Across multiple genres, Channel 4 is a creative counterweight to the BBC, because it competes directly and very ambitiously with it but with far smaller resources.

In summary, we see ourselves as a highly efficient creative greenhouse—a place where ideas and people are incubated and nurtured for the nation. This eclectic mix of outcomes is sometimes described by sceptics, and perhaps by competitors, as a self-selecting and fuzzy licence to do what we like and to perpetuate the institution, but that is not the way we see it. This special mix is unusual and it is what drew me to Channel 4 six years ago after 25 years in the private sector. I love the fact that Channel 4 is run as a business. It is hungry every day to earn its keep, it is lean in its use of resources but it is set up to do what many talented people in the creative industries want to do first and foremost, which is great work.

As one of my colleagues recently and memorably said to me, “We don’t do this to make money. We make money so we can do this”. So I complete my opening remarks by picking out just three things from the last 10 days or so that came out of Channel 4 and that have come to national attention. On Sunday night, the BAFTA craft awards were held. Channel 4 won seven awards, two more than any other individual channel. A notable winner was Michaela Coel, who you might have read about in the press in the last few days talking about diversity in the media industries. She produced her first series with E4, called “Chewing Gum”. One thing that struck me in her various interviews was her talking about the role that Channel 4 had had in nurturing her as someone who was still in her 20s and about how she converted her ideas and her talent to the screen. She said of Channel 4 that as an institution it had perhaps had more confidence in her than she had herself at the point at which the project began.

Last night, we started a new comedy called “Flowers”—it is on at 10 o’clock every night this week and is a very unusual show, again by a writer and performer, Will Sharpe, who is still in his 20s; it is his first show—taking a risk on a new voice that will come to greater national attention in the years ahead. A few days ago we learned that “American Honey”, a film by Andrea Arnold, the leading British film director, who did some of her early work with Film4, was selected to compete for the Palme d’Or at the 2016 Cannes film festival, clearly making

an important contribution to Britain but also to the development of women directors in the film industry.

These are examples of us delivering a key aspect of our remit to develop talent and take risks, but they also reflect a creative organisation that is firing on all cylinders after several years of creative renewal. Our purpose is as much about the spirit of what we do as it is the letter. So whatever the outcome of these important parliamentary deliberations, our hope is that we keep the quality, the originality and the appetite for creative risk-taking front and centre of the process. Thank you.

Q42 The Chairman: Thank you very much. Let us get into our questions. You will have seen the quote from Secretary of State John Whittingdale: “Channel Four’s market share has been falling every year for the last four years. It’s still delivering good content and it’s still delivering the remit and covering its cost but my concern is whether it can still do that in five or 10 years”. How do you react to that concern of government? Why is John Whittingdale worried? Why is he raising this issue?

David Abraham: We are a little puzzled, because in the last couple of years, certainly in prime time, our shares have been increasing, which is unusual for a terrestrial channel, and our online viewing has been growing at quite a pace, so our revenues over the last two or three years have also been growing. The key factor is whether we are developing our distribution strategy in line with changes in consumer behaviour, and we believe that we are. But those issues have to be matched by the creative impact of the organisation to deliver to its remit, and the important thing about Channel 4 is that it is entirely commercially self-sufficient, its proposition is appreciated by advertisers, and they have continued to support us as a business as well as as a creative partner.

The question that the Secretary of State raises is fair when one looks over the broad spectrum of terrestrial channels overall and the fact that they have faced competition over the last decade or so from many different perspectives, not least the fact that they themselves—indeed, all of us—have diversified from single channels into a portfolio of channels and now into services that also work online. Taken overall, we are holding on to a similar amount of audience share and impact that we had 10 years ago, and we are also seeing proportionately the value of what we are offering advertisers continuing to drive revenue growth.

The Chairman: You dismiss the argument that you are not sustainable in the longer term.

David Abraham: No one can ever be complacent about the long-term future if one does not continue to innovate. This is a question of whether you have a distinctive brand, whether you are producing high-quality content, whether audiences are coming to you, and whether the

management of the organisation is competitive. We make no assumptions about the right to exist indefinitely without that effort, but the evidence seems to suggest that—and external analysts, some of whom you have spoken to, would certainly support the view that—our market-share position is strong, the medium of television continues to operate strongly in the UK, and Channel 4 has a very distinctive position within it.

The Chairman: Do you want to add anything, Dan?

Dan Brooke: No, thank you.

Q43 Lord Sherbourne of Didsbury: We are exploring, as you know, the pros and cons of privatisation. The first question I would like to put to you is this. Obviously, privatisation can take different forms and there could be different owners, but could any opportunities come from privatisation that would make your job easier to do and that would strengthen Channel 4?

David Abraham: I cannot answer the question hypothetically. All I can observe as someone who ran commercial channels until the point at which I got to Channel 4 is that my job was different because I was seeking to maximise profits. Channel 4 is in a position to take greater risks with more companies and more unusual projects, some of which I referred to earlier, because it is in the privileged position of not having to deliver those profits. So the question is whether the core purposes of the organisation are consistent with a profit-maximising objective. I find that idea quite challenging, and I have been open to saying that on previous occasions.

There are more specific questions about the framework within which we operate, the fact that we hold reserves, the fact that we have no debt, and the fact that there are examples of things that we might do differently if we were freed to operate in a slightly different framework, but they do not play to the core purposes of the organisation.

Lord Sherbourne of Didsbury: So you see no real reason for thinking that it could be helpful in any way at all?

David Abraham: I recognise that many arguments have been tabled for why being part of some big, global conglomerate would somehow defend us from the forces of change that are affecting all media organisations in the world, but I would like to think that commercial innovation and technical innovation are part of what Channel 4's remit is about. We have proved ourselves to be pretty proficient in staying ahead of the marketplace and making investments from within our resources as opposed to needing external funds to do those things.

Lord Sherbourne of Didsbury: The next hypothetical question is: if you were privatised, what would the biggest danger be?

David Abraham: It would become immediately challenging to deal with the trade-offs that we make daily between the programmes that deliver commercial returns and those that deliver to the remit that may not be commercially sustainable. Right now, there are various aspects of the remit that we try to cross-subsidise. So we would be far more constrained in our ability to maximise the delivery of the remit as we currently do, because that is our core purpose. The profits in effect, where they exist, go back into programmes. So I would see us working with fewer production companies, adapting the schedule to be more commercial, going for ideas that perhaps came off the shelf more than jumped off a creative cliff and took big creative risks. All that, over time, would change the nature of Channel 4. It would still be called Channel 4, but it would not necessarily be the Channel 4 that we know.

Lord Sherbourne of Didsbury: That assumes that the remit would change. If someone were prepared to buy Channel 4 with a clear, similar existing remit, what would the danger be then?

David Abraham: There are two aspects to that. One is whether the remit would stay indefinitely from that point and whether, as we have seen with other broadcasters, there would be efforts to optimise profitability by adjusting the remit over time. But even at the point at which agreements were made, there would be a difference between the letter of a remit and the spirit of a remit. You could produce a certain number of hours. Let us take news as an example. We all know that “Channel 4 News” has a certain forensic investigative approach. Certain subtle things like that would change over time as priorities changed.

Dan Brooke: The fundamental incentive structure of the organisation would change overnight. At the moment, it is remit-maximising first. If we were no longer non-profit, which one assumes would happen if it was privatised, suddenly the primary incentive would be profit maximisation and everything else second. So I think that is right. You could undoubtedly keep the words of the remit on the page, but you only have to look at the difference in output between Channel 4 and the other commercial public service broadcasters that are profit-maximising—just the difference across a range of genres and activities—to see something approximating what one would get if one changed the incentive structure.

Q44 Lord Goodlad: The Secretary of State recently said that he thought that the remit was “fuzzy”, and David Elstein told us last week that there is little in the remit that Channel 4 has to adhere to and that the only protection is the good will of Channel 4. How would you rewrite the remit in the future if you had the chance, or would you just leave it as it is?

Dan Brooke: We think that it works very well. We do not see it as “fuzzy”. Producers tell us that they do not see it that way, and viewers certainly do not see it that way when we conduct extensive market research with them, which we do regularly. There is a bit of complexity in this that is worth unpacking, because I know that some of the evidence that you have received has suggested that the remit has been diluted in some way. We are puzzled by that, because the picture that we see is the reverse. We have a wide range of public service obligations and responsibilities. They sit formally in two different places, which I think is where the complexity lies. They sit in statute, with our public service remit, and they sit in our public service broadcasting licence with Ofcom.

Let me deal with the former first: they tend to be qualitative in nature. There are broadly three different categories in the remit. We have themes such as innovation and diversity; we have audiences that we are required to appeal to—for example, young people; and we have genres that we are required to have—for example, news, current affairs and film. Those tend to be qualitative in nature. We have conducted analysis on how the number of those obligations has changed over time. The year 2003 was an important date because we had the Communications Act. We also had the Digital Economy Act 2010. Pre-2003, there were five elements of the remit that we were obliged to fulfil. Now, in 2016, the number has risen to 15, so the number of remit obligations that we have has trebled from, if you like, the old world to the new world. That is just the remit.

Then, with Ofcom and what was the ITC licence, there were 16 quotas—the obligations there are all quotas—and today there are still 16 quotas. Now, a minority of those 16, the subject to the quota, has changed; for example, we used to have an obligation to produce religious programmes—a quota for religious programmes per week. We do not have that any more, but we have a quota for producing programmes in the nations of the UK. There have been some small changes to the absolute level and the numbers attached to the quotas, but they are relatively incidental in the grand scheme of things.

The third thing that has changed substantially, to go back to the remit, notwithstanding that the elements of it are largely qualitative—I know that you have heard from Ofcom about the importance of this balance between qualitative and quantitative—is that we have attempted to put quantitative metrics against them with Ofcom that are independently audited in our annual report, the statement of media content policy, to put some kind of numbers against those qualitative elements. In the old world, there were none of those; there were zero metrics against the remit. Now, in 2016, we have 42 different metrics, which are everything from the hours of news that we produce to the ratings for news among young people, the ratings for

news among BAME audiences, and qualitative things such as how independent from government the news feels.

I am not sure that I have answered every part of your question, but I am grateful for the opportunity to put on record the actual situation, which is that our public service responsibilities have increased substantially over time, and that our accountability for them has also increased, not the reverse.

David Abraham: If I could just add some colour to what Dan said, I would love to submit to you a speech that Jay Hunt, our chief creative officer, made recently about the process of coming up with innovative programmes, because so many examples of breakthrough ideas in television do not conform to box-ticking. Often, they are hybrids of known genres working in new ways with new techniques, so it has always proved problematic to think of the measurement of a remit only through a box-ticking exercise. The ultimate guarantee that we are not operating by a voluntary code but by an absolute one is that we are a not-for-profit organisation that is overseen by Ofcom. We go to extensive meetings with the Content Board; it attends a board meeting every year. The supervision feels close; it feels real. Culture is “fuzzy”, but the regulatory framework in which we operate from a management perspective is far from that.

Q45 Baroness Benjamin: You mentioned the remit earlier. Channel 4’s remit states quite clearly that it should “appeal to the tastes and interests of older children and younger adults”. But the Secretary of State has raised concerns about the lack of children’s programmes on Channel 4 and so have others, including Ofcom and others who have given evidence to this Committee. How do you respond to this criticism?

Dan Brooke: We have always had a strong relationship with young people. We have the youngest audience profile of any public service broadcaster in the world. I suspect that this is why Parliament decided that we were a good home for a responsibility to appeal to older children, which came through in the Digital Economy Act 2010. To give that a tiny bit of context, first, we have always understood “older children” to be children aged 10 to 14. While that is obviously a narrow age gap, 10 year-olds as we all know, are very different from 14 year-olds.

Secondly, and notwithstanding our strong tradition with young people, our tradition has actually tended to be with teenagers and older, so we do not come at this with a strong hinterland in appealing to that audience. Lastly, as a commercial broadcaster with a self-sustaining model, there is some challenge in the business model in this area, because we are

funded almost entirely by advertising and advertisers do not buy 10 to 14 year-olds as a demographic that narrow.

That is the context. I am sorry to introduce the term, but we have been on a journey with this. We started out with online and with games. Notwithstanding what we are told about how children do not watch television any more, we had some success with online games but we took the view that children still spent quite a lot of time watching television. So we started commissioning programmes targeted specifically at that group. Probably the best example is a drama that we made called “Youngers”, which was on E4 and also had a very diverse cast. That programme was successful, but we noticed that Channel 4 programmes in prime time, which were constructed for a more general audience, were capturing a far larger number and having a greater impact with 10 to 14 year-olds than the programmes specifically targeted at them. So our strategy has shifted a bit to prime time programmes on Channel 4, where we now try to introduce characters, themes or storylines that we think will be relevant to older children. A good example of that is “Educating Cardiff” or “Gogglesprogs”, which is a version of “Gogglebox” where children are on the sofas and not adults. We are finding that the audiences that we are generating for those programmes are much higher for 10 to 14 year-olds than they were before.

One thing that I think will make a big change in this area is a returning drama that we are hoping to launch at the beginning of next year. When I say returning drama, I mean a drama that has soap-like qualities. It will be set in a school and have characters and storylines that we hope will appeal to older children. We are very excited about that. There is a bit of a wait for it, but nevertheless it is coming down the track.

Let us pull back and ask ourselves, “How are we doing in our ratings among this audience?” First, the index of our total audience on Channel 4 for 10 to 14 year-olds is higher than it is for any of the other public service broadcasters. Secondly, our audiences among this group are growing—last year we were 6% up in our ratings for this group. I do not say that it is perfect; I know that there are people who would like a different strategy or like us to do more, but we are trying and we have had some success with the strategy that we are deploying.

David Abraham: It is probably worth adding that if there were to be substantive changes to this aspect of the remit, we as managers would need either to move money from something else to pay for it or to return perhaps to some of the broader discussions that began and have not been concluded on the regulatory levers that could assist Channel 4 to do more. I have been pretty open in raising issues about how, for example, adjustments to, rather than the abandonment of, the terms of trade could help Channel 4 in future. I have also raised issues

around transmission fees, EPG prominence and other things that I think are still under consideration between Ofcom and DCMS. If the exam question is what more could be done to create the environment in which Channel 4 could continue to do more, that opens up new possibilities. Otherwise, it becomes a zero-sum game between wanting to do more, which of course we would like to do, and having to find ways of doing less elsewhere. You might have noticed that we significantly increased our commitment to funding independent British film this year. We are due to spend £25 million this year in the British independent film sector, which is up from £15 million in prior years. There is always more that we try to do when our revenue moves, but it also has to come from somewhere.

The Chairman: Thank you for that. We are half way. There is a Division in the House. We will have a six-minute break and we will resume shortly when this vote has passed us by.

Baroness Benjamin: I have not quite finished, actually.

The Chairman: We have not quite finished, says Baroness Benjamin, so we will return to the tail end of this question.

The Committee suspended for a Division in the House.

Baroness Benjamin: It has been suggested that a new fund be set up and that Channel 4 should take responsibilities for the 12 to 16 year-olds. How would that fit within your planning, and do you not feel that we should have not just the one drama that you mentioned but other dramas that go right across the genres, as you do for adults—factual programmes, wildlife programmes? Do you not feel that that age group is not really being served anywhere else and looks to Channel 4 to be served there?

David Abraham: We would always be enthusiastic to do more. There are two issues to address here. One is that we have always adhered to a philosophy of self-sufficiency. We believe that there is a link between our financial self-sufficiency and our editorial freedom. So we would be wary of any mechanism whereby, for the first time in 34 years, Channel 4 received public funds. It could open up an extra level of complexity to our model that we would rather avoid if at all possible. We would look for other mechanisms in the broader environment.

Baroness Benjamin: Such as?

David Abraham: Such as transmission fees; that is, the value that the public service broadcasters are bringing to the pay platforms. We could look at the regime whereby value is currently exchanged between ourselves. Ofcom has looked at that and has said that it would

be worthy of further consideration. We are very keen to continue that conversation. The broader issue, as Dan has touched on, is that we have to accept that there have been some profound changes in behaviour and technology in the 20 years since we can remember coming home and being captivated by traditional linear channels as schoolchildren. We have to think about the means of distribution to solve this problem as well as content. That is where the developments behind All 4 are relevant: the fact that, for example, half of all 16 to 34 year-olds in the UK have registered with us represents a fantastic opportunity for us to build and deepen that relationship through our online platform. These investments have to be looked at in their totality, but the principle that we would prefer to stick to is our own self-sufficiency rather than going for some kind of public grant.

Baroness Benjamin: What about tighter regulation from Ofcom of your remit?

David Abraham: As Dan said earlier, we feel that we are working under a pretty tight and clear remit as it is. E4 is the leading channel for teenagers in the country.

Baroness Benjamin: But they are watching overseas, brought-in programmes; they are not watching homemade programmes specifically targeting their lives and made in the UK.

David Abraham: Partly, they are. We do commission some original programming on E4, and we would clearly like to do some more. We have to look at this in the round in terms of the proliferation of smartphones and the use of YouTube short-form clips. Again, if you go to All 4, you will see that we are experimenting widely with what we call short-form content, which is mobile content—more snackable forms of content. That is a very interesting new area for us that is leading us to develop new ideas that could go on to long-form content. So there is innovation going on here, there is experimentation. We would like to do more, but, again, to the extent that it is an added element to the remit, we have to look at where the funding would come from, given all our other obligations.

Baroness Benjamin: That is very encouraging, thank you.

Q46 Earl of Arran: On the culture of Channel 4, how much of its culture and its content is linked to the operating model? What would the effect of privatisation be on this culture?

David Abraham: That is a very insightful question that goes to the very heart of my opening remarks. Effectively, when I worked for a private company and came in in the morning, my obligation was to find a way of maximising the returns to the owners. That was my moral and fiduciary duty. My duty in my current role is to take the remit that has been given to us by Parliament and to optimise all the activities of the organisation to that end. If I fall short of that, Ofcom will raise it with me. If I fall profoundly short of it, I would not expect to keep my job. This permeates the organisation. We encourage our creative teams to take that extra

level of creative risk that that they would not have the privilege of doing if they were working in a commercial environment. It is part of that culture to work with young talent, to push investigations further and deeper than other editorial organisations are free to do. Let us take last night's "Dispatches", for example. We did a big story about the airline industry and practices in ticketing. These kinds of investigations come from an independent, bold editorial organisation. In every department and genre, we are seeking to do things differently and take those risks. I strongly believe that the culture would change under a private model.

Earl of Arran: Would it matter if the owning company was UK or international?

David Abraham: I am very agnostic about the domicile of ownership. I have worked for a lot of American companies in my career and many of them are very creative. But I have made the observation. You are our legislators. This is about balance. As the Committee has commented, there is a mixed ecology in the broadcasting system between private operators, pay operators, free-to-air operators, licence fee-funded—the hybrid around Channel 4. The balance between all those creates great creative competition. It is possible to observe that there have been some very big changes in consolidation of ownership of production and potentially future changes in the control of Sky, for example. Were all those to come to pass and we were to play them through in the next five to seven years, we would have a very different landscape where big decisions were being made outside the UK. That is a broader ecology point than it is specific about who individual assets such as ours might be owned by.

Lord Hart of Chilton: Let us assume that the current remit remains the same. Could Channel 4 be a profitable investment?

David Abraham: We are producing surpluses and profits.

Lord Hart of Chilton: Assuming privatisation.

David Abraham: If you asset-stripped the organisation, if you took fewer creative risks, if you sliced the news back, did fewer "Dispatches", stopped doing independent British film, worked with 50 companies not 300, of course you could make Channel 4 more profitable. The question is: is that what you would want?

Lord Hart of Chilton: Yes, but do you assume that that would happen if you privatised?

David Abraham: If you sought to maximise the profitability of the organisation, yes. I know that the Committee has heard arguments that it would be incredibly easy to deliver the remit for £40 million or £50 million and therefore that you can be both remit-maximising and profit-maximising, but that is a hypothesis that without more detail is very difficult to demonstrate.

Lord Hart of Chilton: Do you assume that with privatisation comes a desire to maximise profitability?

David Abraham: It is an obligation of a private company to maximise returns. The argument that these two priorities are somehow natural bedfellows is very difficult to demonstrate in practice, because we have not seen it. We have the history of ITV, which is that of a private company that had clear and explicit public service obligations that have been eroded over time. We have Channel 5. While people have said that it has increased its obligations in recent years since it was sold to Viacom, those obligations are inherently lighter than those under which we operate. So they are very different beasts. It is down to culture and core purposes of every employee in the organisation. Our employees do not have shares; they do not have profit share. We have variable pay in relation to the delivery of our core purposes. But the whole incentive structure, as Dan said, is very different.

Lord Hart of Chilton: Do I assume that, with the remit kept constant as it is, very few people will be interested in privatisation?

David Abraham: It would go to price. It is not difficult to look at the balance sheet of Channel 4 today, and the market would then take a view as to whether it would hope to erode the remit over time while seeking to maximise it in the short term. Those are complex calculations that you can test only if you put it into the market.

Lord Hart of Chilton: What do you think the attempt to erode the remit would be? Where would the first person look to alter it?

David Abraham: An hour of news every evening. You would go to how many hours of “Dispatches” there are. You would go to an unprofitable Film4 subsidy model. You would go to children’s programming. You would go to the amount of comedy that we do—it is a very challenging genre in terms of profitability. You do less drama, you do more acquisition, you buy more entertainment shows and gameshows, you acquire more and you repeat more. These are the basic practices of optimising the commerciality of a schedule.

Lord Hart of Chilton: Do you think that the Government would really be in the business of seeking to maximise the return they get from privatisation and be disposed to watering down the remit?

David Abraham: I cannot speak for the Government. Maybe your next witness will do that. I can say that we understand that this is not about maximising the value of Channel 4, because the contribution that we could make would be relatively small versus other issues that we know the Treasury are looking at.

The Chairman: David Elstein explained to us that in his view you could make savings of perhaps £200 million a year if you were acquired by someone who could merge your operations with another, similar, broadcaster. That level of savings was surprising, but did it ring true at all?

Dan Brooke: As I understand it, that number, if hypothesised, would exist across the two different organisations. Let us say for the purposes of argument that £100 million of that would need to come out of Channel 4. Do not forget that at the moment Channel 4 is a non-profit organisation, so the first thing that would need to happen before the benefit to which savings would go would be to pay a margin. What would the margin be? ITV's, or some version of it, is perhaps the nearest thing to what you might get for Channel 4—or Channel 5's. We do not know what Channel 5's margin is because it does not publish it, but ITV's margin is 28%. That is £280 million that you have to find out the Channel 4 business model before you even start. Could £100 million of that come out of Channel 4? We struggle to see where it can come from. We have done some comparisons on the cost of putting our channels to air relative to other commercial competitors. The closest, again, is ITV, and we believe that, based on available data, we are more efficient at putting television channels to air. So we are not quite sure where that scale of saving would come from.

On the idea that that saving can somehow be deployed against spending on programming, the first thing that has to be deployed against it is the profit that the purchasing organisation will have to make out of the thing that it has just acquired.

Q47 Baroness Jay of Paddington: You have already talked in your response to Lord Hart and in earlier answers to other questions about your concerns about news and current affairs, and you raise the particular point about “Dispatches” last night, and similar programmes. Of course, the Secretary of State has specifically pledged to protect that genre of programming. If you think that is realistic—perhaps you do not—how could you address that in a changed remit?

David Abraham: There are two aspects to that. One, which I have experienced myself in previous roles, is the extent to which, as editor in chief, you take those kinds of risks in the full knowledge that you might upset commercial interests. That is a very real issue in an editorial organisation, and we see it played out many times across newspapers and the history of media. So we would be more cautious and less robust in our contribution to news and current affairs plurality as a result.

Then there is the slightly more technical aspect to this. Let us say that we were running a privatised Channel 4 and fell short of some of these remit obligations, as I think one of you

pointed out when you spoke to Mr Elstein. When he was running Channel 5 he fell short of some of those obligations. What can the regulator actually do? Yes, you can withdraw a licence and you can fine, but those are pretty draconian things for the regulator and the Government to consider for the owner of a public licence; whereas, bluntly, Ofcom currently both operates as a referee of our editorial output in a very clear and overt way and, on an annual basis, breathes down our necks to ensure that we are delivering our remit across a complex range of measures. That is a very real thing. We would be picking up the phone and saying, “We’re a private company now. There’s a limit to how much you can push us around, unless you really want to be very aggressive about it”.

Dan Brooke: You could regulate for the quantity of activities to be continued—so many hours of news—but how do you regulate for quality and for the subject matter that is included in the news? “Channel 4 News” specialises in foreign news. As David says, it is the only hour-long programme in peak. How do you regulate for the scheduling of the programme? These are extremely difficult things. The only way you could even attempt to do it would be through large amounts of additional bureaucracy and then substantial amounts of micromanagement by the regulator—to all of which a new owner would say, “ITV and Channel 5 don’t have that degree of bureaucracy and micromanagement, so can’t we have as little as they’ve got?”, and so the whittling process would begin.

Baroness Jay of Paddington: So shortly, in practice, you think that the pledge to protect “Channel 4 News”, Channel 4 current affairs and Film4 is pretty unrealistic.

Dan Brooke: As I say, you could protect the quantity that was produced but not the quality or any of the other aspects that I have mentioned.

Baroness Jay of Paddington: And I thought you told Lord Hart that under a privatised model even the quantity would be under threat.

Dan Brooke: Yes, it would. You would be constantly going back to regulator and saying, “We can’t do this. We can’t afford it”. This has been the history of commercial public service broadcasting in the UK over the past 25 years.

David Abraham: Mr Elstein brought a very interesting example to you in which he compared what happened in the recession, when ITV came to him and said, “Listen, we’re in dire straits here. Can we reduce our obligations?” He pointed out that he thought that Ofcom ought to have tied it to the same mechanic that we had, because we also came to him and said, “We need to reduce the number of original hours that we can afford this year, but when the market comes back we will increase it back up to what it was”. In ITV’s case, it was left at the lighter

level of obligations, so you can see in practice situations from history that point to varying the obligations according to the realities of the solvency of the business.

The Chairman: We have a couple of questions to go, but I am told that the Secretary of State is awaiting us, so if we may we will go rather briskly through them.

Q48 Baroness Healy of Primrose Hill: I will be quick. Are you confident that Ofcom will be able to put an effective regulatory structure in place and have the ability and the expertise to regulate a privatised Channel 4?

David Abraham: We touched on this briefly in answer to a prior question, but it is worth referring the Committee to the views of Ofcom in 2008, I think, when the merger of Channel 5 and Channel 4 was proposed. That was an attempt to combine a holding company that was reporting back to a foreign privately-owned company and then to merge it with the interests of the public service centre of Channel 4. Ofcom's view at that time, I think under Lord Carter, spelt out quite clearly that this was a very challenging thing for Ofcom to oversee in the long term.

Q49 Baroness Bonham-Carter of Yarnbury: Very quickly, you are doing well. Should this not mean that you should be a little more adventurous than you are being? In particular—John McVay of PACT brought this up—you seem to be working rather tightly with 300 indies. There are a lot more out there. Should you not be expanding your net a bit?

David Abraham: We absolutely agree that one of the core purposes of Channel 4 is to interact with the widest possible diverse group of creative people around the country. Actually, we interact with over 400 indies, although of course on an annual basis we are developing ideas that might take over a year to come to fruition. John referred to that, and we did work with PACT on all that outreach.

But there is also the converse dynamic that the success of our schedule has, by definition, led to more returning series. Those more returning series have been produced by companies that then become very attractive to consolidators and often to international companies—and, so it comes to pass, those companies are often sold. That is a product of our success and one of the reasons why we created a new £20 million growth fund, invested in nine new companies so far, that is the new seed-corn of the next generation and the next wave of companies. So we are working with the nations and the regions on more stringent obligations that are now 9% by 2020. That is the course that we are now on, but we entirely support the philosophy that PACT has set out, encouraging us to work with as wide a range of companies as we can. We currently work with more companies than Channel 5 and ITV combined.

The Chairman: Thank you both very much indeed. That was extremely helpful to us. You are absolutely at the heart of our inquiry, so it has been great having you with us.

David Abraham: Thank you very much for having us.

Examination of Witness

Rt Hon John Whittingdale OBE, MP, Secretary of State for Culture, Media and Sport,
Department for Culture, Media and Sport

Q50 The Chairman: Welcome, Secretary of State John Whittingdale. Thank you very much for joining us. It is great to have you before us again, this time to talk about Channel 4. We do not need to hear your biography, you will be glad to know. If you would like to make an opening statement, feel free to do so. If you do not, we will go straight into questions. If you would like to say anything more generally about Channel 4 that we might or might not cover later, do please open with that.

John Whittingdale MP: Obviously I welcome the opportunity to talk to the Committee about the various options that might be suitable for the future of Channel 4, but, as I think we explained before, this is still work in progress. Therefore, I am afraid that I will not be able to give you any decisions or indications yet of where the Government are going. This is a live debate, and a very important one. Channel 4 plays a very important role in the landscape, and my intention is to try to ensure that Channel 4 remains a viable, well-resourced, strong contributor to the public service broadcasting environment.

Q51 The Chairman: Thank you. I quoted you to the Channel 4 team before you came in. You said: “It’s still delivering good content and it’s still delivering the remit and covering its cost but my concern is whether it can still do that in five or 10 years”. Are you still concerned?

John Whittingdale MP: That is one reason why I think it is worth looking at the future of Channel 4. I remember not too long ago, when I held my previous job as Chair of the Commons Committee, the then management of Channel 4—the chairman and chief executive—telling us that a black hole would emerge in the future because the advertising revenue would not allow them to continue to deliver the public service content that they are required to deliver. At that time, there was the suggestion that the Government might have to step in and fund it. Since then, the advertising market has recovered quite well and Channel 4 is doing much better. First, however, Channel 4 is very heavily dependent on the state of the advertising market, which is always a little uncertain to say the least.

Channel 4 themselves have indicated that there are potential risks attached to the future. They have said publicly: “Channel 4 believes the potential downside risks associated with these factors, such as a faster shift to on-demand viewing, the emergence of new disruptive entrants, faster fragmentation of audiences, production cost inflation outpacing funding, and structural changes to the licence fee of TV, outweigh the potential opportunities. Moreover, Channel 4 is arguably the PSB most likely to face the future first, given its focus on risk-taking and trying new things, and also its targeting of young audiences, who are the most avid users of new technologies and platforms”. So the future is very uncertain. We are in a time when the media landscape is changing faster than at any other time, and that carries risks with it for a publicly owned but commercially funded broadcaster that is almost wholly dependent on advertising revenue.

The Chairman: Although Ofcom said that the most likely outcome is that Channel 4 is sustainable, but you might disagree with that.

John Whittingdale MP: Ofcom went on to suggest to us that, “there is the potential for significant change in this sector over the licence period, and a downside scenario could pose significant risks”. I think everybody recognises that we are at a time of very rapid change, which is affecting all broadcasters, but Channel 4, for all reasons, is perhaps more vulnerable to potential risks than others.

Lord Hart of Chilton: You have given us two statements, one from Channel 4 itself and one from Ofcom. What date are they?

John Whittingdale MP: Goodness. I do not have the dates on me. I am happy to supply them, but I do not think they are historic; I think they are relatively recent.

Lord Hart of Chilton: We would like to know that.

John Whittingdale MP: I am afraid that my note does not have the dates, but I am very happy to supply them.

Lord Hart of Chilton: Including the date for the Ofcom quote.

The Chairman: Can we detect from your decision to look into Channel 4’s future that you have a wider policy interest in the possible relaxation of restrictions more generally on UK broadcasting?

John Whittingdale MP: Obviously the biggest issue in the in-tray is the renewal of the BBC’s charter, which expires at the end of this year. The BBC has such a huge impact on the whole broadcasting landscape that the issues that we were examining that relate to the BBC would also affect other broadcasters and the general media environment. Given the rapid change that is under way, it was felt that it was the right time to look at the future not just of the BBC but

of other areas. Obviously the other broadcaster owned by the Government is Channel 4, and some of these factors will influence Channel 4, as I suggested.

Then we looked at other ways in which the Government intervene to influence the media companies. There are two in particular. One is the terms of trade, which we said we wanted to look at, not necessarily to change but to see whether they were still delivering the outcome that was the original reason for putting them in place. The other is the issue of retransmission fees—the relationship between the content owners and the platforms that transmit it. We have been looking at that as well. Actually, that was started under the last Government.

The Chairman: There is a Division in the House of Lords. We are going to need to take a break, I am afraid. I apologise for that. We will try to keep it to five minutes, if we may.

John Whittingdale MP: Indeed. I will see whether we can find the answer to Lord Hart's question in the meantime.

The Committee suspended for a Division in the House.

Q52 Baroness Jay of Paddington: I have a question that you may or may not want to answer. You spoke of a connection between your concern about Channel 4 and the renewal of the BBC charter. Can you expand on that? How do those two things relate specifically?

John Whittingdale MP: There is no direct connection. I felt at the time that obviously the BBC charter is a huge intervention in the market by government with massive public funding. That has been the first and biggest task in my in-tray. One reason why I thought it right to have a fundamental review of the BBC charter was the extraordinary change that has taken place in the 10 years since the last charter. That change is affecting every broadcaster, so it seemed right that one should not just pick out the BBC. Now was the time to look at all the ways in which government is involved in the media market to see whether changes needed to be made to take account of the direction of travel and the speed of change. That applied to Channel 4 and, as I said to the Chairman, to other ways in which the Government intervene through things like the terms of trade and retransmission fees.

Baroness Jay of Paddington: So it is just a general scoping about the change in broadcasting over the past 10 years.

John Whittingdale MP: It is. Obviously the BBC and Channel 4 have a more specific remit than other broadcasters. One thing that we are looking at as part of charter review is the areas on which it is right that a publicly funded broadcaster should focus and where commercial broadcasters are not supplying enough content. That applies equally to Channel 4, because it

was set up specifically to address audiences that perhaps were not being served fully by the existing broadcasters. Therefore, the argument for looking at the BBC is the same as that for looking at Channel 4.

Baroness Jay of Paddington: I know that people will want to come back to the remit, but perhaps I could come back to the issues of the potential privatisation of Channel 4. As you will be aware, Terry Burns, one of the ex-chairmen of Channel 4, has proposed a mutualisation of the organisation. Does that have attractions for you?

John Whittingdale MP: Terry came in and presented that, and we are looking at every option. I welcome the fact that Channel 4 came forward with a potential option for examination. I am not sure that it addresses the problems really, in that one of the concerns is that Channel 4 is heavily dependent on a quite volatile advertising market. There is an argument that Channel 4 will have a stronger future if it has a private sector partner, either in part or in whole, that has deep pockets and is willing to invest in the growth of the business. Mutualisation does not provide that. Actually, it diminishes accountability, which I also regard as important. So I am not quite sure that it offers Channel 4 any great advantage, but obviously we will consider it alongside all the options.

Baroness Jay of Paddington: The argument, of course, is that it is a question of the potential to continue with something like the present remit or at least to firm it up—I think you said that you thought it was a bit “fuzzy”—and not necessarily to have the part-privatisation solution that you mentioned just now, which might bring its own quite substantial financial complications.

John Whittingdale MP: That is something that we can talk about. I regard the remit as a separate issue from whatever ownership structure is chosen. The remit should, in my view, be continued and possibly strengthened whichever ownership structure we decide is appropriate. The remit is why Channel 4 was set up in the first place. It has delivered some remarkable, innovative programming over the years, but there are concerns that in some areas it is perhaps not clear enough and that in the longer term there is a case for revisiting it and seeing whether we should not be more specific in certain areas.

Baroness Jay of Paddington: It is interesting, though, in view of some of the other evidence that we have received, that you do not seem to feel that one has an impact on the other.

John Whittingdale MP: I am aware that some have argued that a private-sector part or full owner would want to dilute the remit. I do not think that is the case. One thing that has come across very strongly since this public debate began is that a lot of broadcasters are potentially interested in Channel 4 but that one reason for that is the strength of the Channel 4 brand. It is

a very visible, very well-respected broadcaster, and the last thing they are going to want to do is undermine that by moving it downmarket or changing the nature of its programming.

Baroness Jay of Paddington: Thank you.

John Whittingdale MP: Lord Chairman, can I perhaps come back to Lord Hart, because I have the answer to his questions? The Channel 4 quote I gave was in Channel 4's own submission to the Ofcom PSB review in February 2015. The Ofcom quote was, I understand, in the 2014 licence review consultation, but it said not an entirely dissimilar thing to the Committee a few weeks ago.

Lord Hart of Chilton: Thank you very much.

Q53 Baroness Bonham-Carter of Yarnbury: I have a slightly tangential question that goes back to Lord Burns and, you will not be surprised to hear from me, to the BBC. When Ofcom suggested that Lord Burns should be given a further year as chair and this was overturned by government, it was felt that this may have had something to do with the fact that he was not totally in agreement with the policy that you were looking at. This has created a knock-on concern about things that you have been saying about the appointment of governors to the new BBC body. Do you understand this concern?

John Whittingdale MP: I am aware that some have expressed it. I do not agree with it. Lord Burns' record in this area goes back a long way. He produced a very powerful report on the BBC that, in my view, it was a shame was not adopted by the then Government, because a lot of the issues that he identified in the BBC are issues that we are now confronting in this charter review. Under his leadership, as I indicated earlier—under the previous management—there were significant problems. The advertising market has recovered. Nevertheless, the current management have managed to bring it back into a situation where it is producing a return that is covering its costs. But Lord Burns' term of office came to an end. Generally, our view is that it is good for all the bodies for which we make public appointments—although in this case it is an Ofcom appointment that comes to the department for approval—that at the end of the term it is right that someone fresh is brought in. It seemed to me that that was right for Channel 4 as it would be for all the other organisations.

Baroness Bonham-Carter of Yarnbury: Despite what Ofcom had recommended.

John Whittingdale MP: Ofcom came to this rather late. Obviously it has a lot of other things on its mind. I would have preferred to have had a conversation earlier so that we had a proper opportunity to have a process without an interregnum, which is what we had. But I am very happy with Ofcom's recommendation and the appointment of the new chairman.

Lord Sherbourne of Didsbury: Can I follow up Baroness Jay's question about what some of our witnesses have talked about as a trade-off between the remit and an acceptable return to a potential investor? That was obviously the concern of Lord Burns, who said that he was worried that if the remit was maintained it would be difficult for a private company to make the return that they wanted, and he thought that it would not be a viable business model.

On the other hand, as I understand it, you are saying that you think that is distinctly possible if you have a remit that is even tighter than it is today. Mr Abraham said earlier that you could have a remit that would be fine on paper but that would erode the spirit in the way it was carried out. That would be the way in which people would make money: they would be able to tick the boxes but would not maintain the spirit of the remit. How could you avoid that?

John Whittingdale MP: The first way in which you avoid it is by setting very clear requirements as part of the remit that are enforced by Ofcom. As I said, there is perhaps a case for making the remit more explicit in some areas. That would be a condition of the broadcasting licence issued by Ofcom, and it would be regularly reviewed in the way it is now. So I see no reason why Ofcom should not be equally demanding of Channel 4 in private ownership or part-private ownership as it is now. Part of the difficulty is that Channel 4's model is to deliver public service content, but it does so on its main channel for a bit of the time. The rest of the programming is essentially much more popular and is designed to raise money to pay for the public service. That has been the model for many years.

I am slightly concerned that while it is very easy to pick out some very innovative shows that absolutely fair and square meet the remit, it is sometimes harder to find them in the schedule, particularly outside peak. Today, for instance, during the daytime schedule on the main channel, are five episodes of "Will and Grace", which are repeats, quite a lot of "Frasier", and "Four in a Bed". That takes up about half the schedule today. There are also some nuggets of programming about which you can say, "Yup, this is the remit", but one of the reasons why some companies, some investors, have expressed interest is because they have a greater ambition for Channel 4. At the moment, under that model it is covering its cost and supplying its remit in that part of the schedule, but some potential investors have suggested that this is a business that could grow; this is a time when media businesses are doing very well, and people want to invest money and grow businesses, so one could have greater ambition for Channel 4 if they had access to the kind of investment that could be available from a partner.

Q54 Lord Goodlad: Still on the remit, Secretary of State, you said that you think that it is fuzzy, and David Elstein told us last week that he thinks that Channel 4 is held to account

very little through it. If you wanted to make it more specific, how would you like it to be more specific?

John Whittingdale MP: There are two elements to the remit. It is very easy to decide whether or not Channel 4 is meeting one of them, because of its quantitative requirements—its production quotas: a certain number of hours have to be produced outside London or in the nations; there are independent production quotas; and there are some programming quotas, principally for news and current affairs. The other is the much broader requirement that programmes should demonstrate innovation, or should appeal to culturally diverse audiences, or should be educational. I have sometimes wondered—and I remember asking Channel 4 this in my previous capacity and never quite getting the answer—which programmes are remit-serving programmes and which programmes are revenue-generating programmes. “Channel 4 News” is plainly meeting the remit, but other programmes I think stretch the definition of the remit, and there is a case perhaps for making clearer exactly the kind of programming that we expect Channel 4 to deliver in order to serve the remit. Then the distinction between that and the more populist commercial programming will be clearer.

Q55 Baroness Bonham-Carter of Yarnbury: It is very good to hear you say that you want the remit to be strengthened, but obviously news, particularly “Channel 4 News”, has come up a lot because there is concern, if Channel 4 is privatised, about how this would remain and how you would safeguard it. Before you arrived, we heard from Channel 4 that you can regulate the quantity but you cannot regulate the quality. How would you make sure that if it was in private hands we would still have a “Channel 4 News” of the quality that we have now?

John Whittingdale MP: First, of course, Channel 4 does not make its news.

Baroness Bonham-Carter of Yarnbury: No, ITN does.

John Whittingdale MP: ITN makes its news.

Baroness Bonham-Carter of Yarnbury: But Channel 4 gives it the space.

John Whittingdale MP: It does, but ITN has developed a news offering on Channel 4 that is distinctly different from what you will find on ITV. Sometimes it is deeply annoying, but it certainly provides an alternative viewpoint, and in that sense it is delivering the remit extremely well. I would not expect the requirement, the contract, of the kind that exists between Channel 4 and ITN to change because of the ownership. It is very much at the core of the remit; it is the one area that is specified—how many hours of news it needs to broadcast in peak time. Then there is the broader requirement of the remit. ITN does a good job, and obviously it is also subject to the Ofcom requirements for things like impartiality.

Baroness Bonham-Carter of Yarnbury: In a way, my question is in your answer, because, as you say, “Channel 4 News”, although produced by ITN, is very different from “ITN News”. If Channel 4 is in private hands, how does it retain its—

John Whittingdale MP: Are you asking whether I am concerned that if Channel 4 were privately owned, its new ownership would say, “We’re going to tell ITN to dumb down the news and make it full of stories about celebrities and less about foreign affairs”, or something? First, that would be instantly challengeable as a breach of the remit. Secondly, there is no reason for them to do that. As I said earlier, the Channel 4 brand is strong and attracts interest from investors because it has a very good reputation, and one thing they will not want to do is damage that reputation.

Baroness Bonham-Carter of Yarnbury: But having that chunk of prime time is a big thing, and there is a history with commercial PSBs of saying, “We can’t do this. Our obligations have to be watered down”, and I am not quite sure how you think a privatised Channel 4 would not come under that kind of pressure.

John Whittingdale MP: The answer is very easy: you say no. If they say, “We’re under pressure. We need to have the remit watered down”, the Government and the regulator say, “Sorry, this is written in stone. This is why Channel 4 exists. We’re not going to water down your remit”.

Baroness Bonham-Carter of Yarnbury: Okay. Thank you.

Q56 Baroness Benjamin: I turn to regulation. Are you confident that Ofcom would be able to put an effective regulatory structure in place and have the ability and the expertise to regulate a privatised Channel 4?

John Whittingdale MP: Ofcom obviously assesses the delivery of the remit at the moment. It also assesses the public service broadcasting obligations that are on other PSBs—ITV, Channel 5. It already has some involvement in regulating the BBC, and under David Clementi’s proposals it would have more involvement. So Ofcom already has quite a lot of experience in this area.

Baroness Benjamin: But when Ofcom gave evidence, it said that it was not responsible for decisions in relation to the ownership of Channel 4 or its remit. What did it mean by that?

John Whittingdale MP: That is perfectly true in relation to ownership. It has a duty to report on plurality, which might be affected, but the remit is set by Parliament. Ofcom has a duty to assess whether the remit is being delivered, which it does at the moment. It is perfectly true that it would not write the remit; the remit would be set by the Government.

Baroness Benjamin: How would you protect against the sort of dilution of obligations that has happened with ITV, for instance: making fewer children's programmes, art programmes and so on?

John Whittingdale MP: As I said earlier, at the end of the day the remit can be diluted only if it is agreed by the Government. Obviously if there were a complete collapse in the advertising market, which would affect Channel 4 whatever its ownership structure, arguably it might be better protected against that if it had a strong private sector partner, just as happened a few years ago when Luke Johnson and Andy Duncan were in the management. They said, "We can't deliver the remit in the future unless we get public money". Happily that turned out not to be necessary, but that kind of occurrence could happen, which would cause them to come and say, "We need to dilute the remit". Of course, it would then be for the Government to consider whether it really was the case or whether there were other ways of addressing it. But to my mind the reason for Channel 4's existence is to deliver the kind of programming that is specified in the remit. Therefore, I would be highly reluctant or resistant to any suggestion that it should be diluted.

Q57 Earl of Arran: Secretary of State, you obviously discuss carefully and closely with the Treasury exactly what you think the value of Channel 4 is, which presumably takes into account the licence, the building et cetera. Given that privatising Channel 4 will create a lot of fuss and require primary legislation through both Houses, do you really still consider that an option, or is the Treasury that desperate?

John Whittingdale MP: As I suggested before and I repeat today, this is not about raising money for the Government. You are right that Channel 4 has some valuable assets such as its real estate and indeed the value of its brand, which is more important. But this is not a sort of "How can we find some more money for the Government?" It is about trying to find an ownership model that will sustain Channel 4 into the future. If there were to be a change there are a number of options and we will come forward with our decision—I have no doubt that it would be robustly debated in Parliament and would expect nothing else. There are differing views in your Lordships' House as much as there are in the House of Commons. Once we have decided what the right outcome is, I will strongly make the case for it.

Earl of Arran: Presumably the Treasury is pretty interested in such a deal.

John Whittingdale MP: I have come under absolutely no pressure from the Treasury to come up with some money. Obviously, the Treasury ultimately controls the shareholder executive that is the Government's representation in the ownership, but I have had no pressure from the

Treasury to proceed with this on the basis of trying to raise money. This is all about the right structure for Channel 4.

The Chairman: Claire Enders told us that the Government would be very pressed to be get more than £1.5 billion. Have you received advice?

John Whittingdale MP: I have not had a figure quoted to me. Genuinely, I cannot tell you what value specifically it could raise if it were sold either whole or in part. There are an awful lot of variables, not least the remit. If we strengthen it—as I have said, I think there is a case for strengthening it—that could affect the value, although I still believe that for a buyer it is the strength of Channel 4 delivering the remit that is part of the attraction. However, it is not something that we would really know until it was tested.

Q58 Baroness Benjamin: It is written in Channel 4’s remit that it must reflect the cultural diversity of the UK, but over half of black viewers when questioned said that they felt that they were underrepresented and unfairly portrayed across the public service broadcasters. In his speech to the Oxford Media Convention, Trevor Phillips said, “Based on the actual data about how people behave, Channel 4 right now is the most important agent of integration in our national media. Privatisation would destroy that at a stroke.” Are you concerned about this?

John Whittingdale MP: I am concerned about the issue; I am not sure I agree with Trevor Phillips. I am concerned about what you said right at the beginning about the failure not just of Channel 4 but the broadcasters as a whole to meet the needs of and serve particular minority community audiences. That is a very important issue in our consideration about the future of the biggest public service broadcaster, the BBC, and we are looking at it closely as part of charter review. I have had conversations with a number of people about how we might seek to address it. There is a failure here right across the broadcasting landscape. Channel 4 has written into its remit that it is required to appeal to a culturally diverse society. It has a more explicit statement in its remit than other broadcasters, so one would expect it to do more. As I said earlier, that is part of its remit which I would expect it to continue to deliver. I think Trevor Phillips said that one of the consequences of “Big Brother” moving from Channel 4 to Channel 5 was that there were now fewer ethnic minority participants. I am not sure that is necessarily a test of the delivery of a remit. We need to look much more carefully than just at the racial origins of people on “Big Brother”. There is a serious problem here, but it goes broader than Channel 4.

Baroness Benjamin: So how would you safeguard this issue if Channel 4 were to be privatised? Have you given any thought to how this could be achieved?

John Whittingdale MP: As I said, the remit is very broad at the moment; it provides no explicit guidance as to how to go about appealing to a culturally diverse society. That does not necessarily mean quotas for representation on screen or hours and particular times of programming, but it is certainly an area that we will look at as part of how we might refresh and strengthen the remit.

Baroness Benjamin: Do you like the Lenny Henry plan? Would you want Channel 4 to do something like that?

John Whittingdale MP: Lenny has come in a couple of times to talk—actually, not about Channel 4 but about the BBC. I know that he is keen on quotas, which I am not particularly keen on, but we are all seeking to address the same issue. My discussions with Lenny Henry and others during charter review I have found extremely valuable. I hope that you will see evidence of that when we are in a position to publish.

Q59 Baroness Healy of Primrose Hill: I am sure you are very concerned about the independent production sector generally because of its role in the creative industries. They are concerned about possible privatisation of Channel 4. John McVay, the chief executive of PACT, told the Committee that it was “mad” to interfere with the system as it is at present. With this in mind, what do you think the impact of privatisation would be on the industry?

John Whittingdale MP: I think that John McVay’s principal concern was around terms of trade, which we said we wanted to look at. We have not yet announced the outcome of that review, but the Ofcom analysis is very clear and powerful. I hope that we will be able to say something, because I know that John is concerned about the uncertainty around it. I do not want to delay setting out our view. On privatisation, whether or not it occurs, one of the arguments made by those who suggest that there is a case for introducing a partner, either in whole or part, is that they will invest and grow the business, which means commissioning more content. For instance, when Viacom took over Channel 5 recently, it made the commitment that it would invest in original programming to a greater extent than under the previous ownership and that it would be UK-originated. When we come to look at potential options, commitment to invest in new programming is an important issue.

Baroness Healy of Primrose Hill: And you do not think that the special role that Channel 4 has performed in growing small, independent production companies would be at risk.

John Whittingdale MP: The independent production sector has changed dramatically, and obviously a lot of the small companies are no longer small companies. They have either become big companies or been acquired by international broadcasters or UK broadcasters. But the independent production quota, which applies only to qualifying indies, which are

generally the smaller, newer ones, is another part of the public service requirement, and that stays.

Q60 Lord Hart of Chilton: We have heard evidence of potential purchasers should Channel 4 be put on the market, but who do you think are the likely buyers? You said earlier that you knew of some interest.

John Whittingdale MP: A number of people have stated publicly that they might be interested. This is a time when a lot of companies want to grow media businesses and invest, as you have seen through enormous amounts of acquisition activity and mergers. I do not think that that is going to change. I do not think that there is any shortage of interest, not just from big, US-based international broadcasters but from some in the UK. If we decided to try to find somebody who wanted to invest in growing business, I do not think that there would be any shortage. As I have said, Channel 4 is a very strong brand. It has certain advantages. The other strength or value that it has in return for delivering the remit is its position on the EPG as a public service broadcaster—that is also a valuable asset. I think there is a view that the business can be grown, that it can be run more efficiently and that that in itself will reduce costs. Certainly, the experience of privatisation in other areas is that it leads to efficiency gains and more streamlined and lower-cost operation.

Lord Hart of Chilton: So have you had a lot of people already beating their way to your door?

John Whittingdale MP: I talk to a large number of media companies. There is no shortage of potential interest, but before anyone is going to say for definite, they would want to see what we have decided about the structure and a remit—all these things. There are a lot of companies in the media industry at the moment that see it as an opportunity to grow, invest and do well.

Lord Hart of Chilton: Should a big British player such as ITV or Sky be allowed to buy Channel 4?

John Whittingdale MP: That would be, first, a matter for the competition authorities. There would be issues around general competition policy both in terms of advertising and the reduction in competition for television advertising, as well as potentially around news provision. The first thing one would want to do is get advice from Ofcom and the competition authorities on whether there were concerns in that area.

Lord Hart of Chilton: But if the competition authorities did not rule them out, you would see no reason why they could not.

John Whittingdale MP: As I say, that is a big “if”, and it is not just competition. There are plurality grounds, which Ofcom might also look at. I am not going to say yes or no to a particular company here and now, but obviously those issues would need to be thought about very carefully.

Lord Hart of Chilton: Some of the biggest independent production companies in the UK are internationally owned. What would be the impact on the rest of the sector if an owner of a big independent bought Channel 4?

John Whittingdale MP: Arguably, that is the direction in which a lot of media companies are going. For instance, ITV is investing heavily in production capacity now, because it, too, recognises that it becomes more vulnerable if it is dependent solely on advertising revenue. I go back to what I said at the start: that a business whose revenues are almost entirely dependent on the state of the advertising market is obviously at a greater risk. Therefore, ITV is seeking to diversify. Channel 4 has in small part, but is prevented from doing so. If it were part of a company that was not just reliant on advertising, that might strengthen it. The production quotas would remain, or we would look at what the appropriate production quotas were.

Lord Hart of Chilton: If there were a purchaser from an overseas sector, what do you think the effect would be on the channel? Earlier, you indicated that you thought that any purchaser would seek to acquire the brand and want to keep to it, build on it and make it even more lustrous. Is that really right?

John Whittingdale MP: I think that part of the interest is around the unique role that Channel 4 plays in the UK broadcasting environment. Certainly, they would not to change it into a sort of multinational-type channel. It is still early days, but the commitment that Viacom made in acquiring Channel 5 was a substantial commitment to investment in this country. I would hope that somebody expressing interest in Channel 4 would be equally committed to UK broadcasting and UK content. There is no doubt that, as has been demonstrated any number of times, high-quality, UK-commissioned content sells around the world.

Lord Hart of Chilton: So if it were to be a foreign investor, does it really matter who it is? Could it be Russian, Chinese?

John Whittingdale MP: As I say, I am not going to single anyone out. I think that both of those would raise serious questions about the motivation. There is a test for determining whether a person is appropriate for owning a broadcasting channel. Certainly the performance of Russia Today in meeting impartiality requirements has not been particularly strong in recent times.

Lord Goodlad: Do you, Secretary of State, envisage a possible role for private shareholders in the future—viewers, members of the public having shares?

John Whittingdale MP: That is an interesting possibility. As I say, no options are closed off. There might be a role for employees. I am very open to looking at a number of options.

Q61 Lord Hart of Chilton: You touched earlier on safeguards. You said that the remit could be kept the same and that the licence would have strict conditions. Some of the experiences that we have had of overseas purchasers giving commitments to things have led only to a series of events over time watering down those commitments. So one is always a bit sceptical about how fiercely one keeps to the word of anything, whether it be a licence or a remit. Eventually huge money begins to pay in terms of watering down.

John Whittingdale MP: I am not quite sure which industry or company you are referring to.

Lord Hart of Chilton: For example, Cadbury.

John Whittingdale MP: Cadbury is not the subject of Ofcom regulation. There is a big difference.

Lord Hart of Chilton: But it is an example of commitments given and then broken.

John Whittingdale MP: But this is a broadcaster, where it is not just about accepting somebody's word; there is a legal requirement to deliver on commitments. If they break their word, they will be in breach of the terms of their broadcasting licence.

Q62 Baroness Jay of Paddington: I hope I am not intruding on Lord Hart's questions, but you were fairly robust in responding to the Russia Today idea, but you also mentioned big US-based companies. I think we would agree that they do not necessarily have similar concepts of PSB to those of some broadcasters in this country. What would you be able to do, short of using a sledgehammer of withdrawing a licence if, as Lord Hart says, big money was trying to influence Channel 4 News or whatever it might be?

John Whittingdale MP: I see no reason why that should be the case. Just to give you an example, you have two news channels under the same ultimate ownership: Fox News in the US and Sky News. Fox News is probably not fully in accordance with the impartiality requirements of Ofcom—it has not been put to the test, but I suspect some might argue that it is not—whereas Sky News has an extremely strong reputation for delivering accurate, impartial news. There has been no evidence of its ultimate owners wishing to change that.

Lord Hart of Chilton: I do not want to pursue this much further, because the fact of the matter is that if you went down that route it would have to go through both Houses. The question would really be how determined anyone would be to face the flak, of which there would be much, in pursuing it.

John Whittingdale MP: As we have seen this afternoon in both our Houses, Governments do things that provoke strong debate and which some people disagree with. I am sure there will always be some people who take a different view whatever view we reach, but part of my job is making the case and trying to persuade people that this is in the best interests.

Baroness Bonham-Carter of Yarnbury: Can I just say that Rupert Murdoch told this Committee in a different time that he was very keen to change Sky News and that it was down to the ecology of British broadcasting and the existence of the BBC and Channel 4 that he felt he could not.

John Whittingdale MP: I would be very surprised if that were the case, because I think Sky News is a very important part of the Sky brand. I do not think it would get any support. There is clearly an appetite for more partial news in America with different viewpoints, which is fine—you switch on Fox News and you know what you are going to get—but that is not what we have in this country; we have an impartiality requirement that applies to all broadcasters, and that is going to stay in place.

Q63 The Chairman: Can we conclude with a word about the timetable? We are now expecting and looking forward very much to the White Paper on the BBC. Our guess is 23 May or somewhere around then.

John Whittingdale MP: I could not possibly comment. I have said that I hope to publish the White Paper in May. I think I said that six months ago, and it remains the case.

The Chairman: Excellent. We are looking forward to that and there will be a debate here on it. With Channel 4, any timetable?

John Whittingdale MP: I cannot say. I am conscious that it is not helpful for a debate to go on indefinitely, so I hope that we can come to conclusions, but these are complicated issues, and at the end of the day this is as much a matter for my colleagues in government as it is for me. We will have to have our own debate before we then have perhaps the debate that Lord Hart predicts in Parliament.

The Chairman: Secretary of State, thank you very much for joining us. Apologies that we were disrupted, as one is in this building. But thank you very much indeed; it was extremely helpful to us.