



Department for Digital, Culture, Media & Sport

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Lord Gilbert of Panteg
Chair
Communications and Digital Committee
House of Lords
London
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MC2021/18790/DC

Dear Lord Gilbert,

Thank you very much for the opportunity to appear before your Committee and for your letter of 20 October which sets out three additional questions where further information would be of benefit to your members. I have responded to each of your questions in turn below.

EY report assumptions

Your letter asks about the assessment the government has made of the assumptions made by EY in their analysis of the impact of a change in ownership of Channel 4. Whilst we welcome the report's findings on the potential impacts of a change in ownership, it makes a number of unevidenced assumptions about the choices a potential buyer might make on how to run the company in the future. We do not share the view that a new owner would make sweeping changes to Channel 4's audience base and content model and risk undermining its unique positioning. Instead we feel that Channel 4's PSB remit, its ability to make distinctive content and its network of independent producers are precisely the strengths any buyer would nurture and develop through new investment.

Additionally, we would question whether the EY analysis appropriately reflects the changes that we expect to see in the market over the next decade. The report assumes a steady state which makes like-for-like comparisons easier, but we would suggest that this significantly weakens the analysis. Using Channel 4's historical growth trends and assumptions from Channel 4's three-year plan to forecast over a ten-year period does not answer the question about Channel 4's long-term sustainability given that we expect the market to continue to evolve significantly in the next five-ten years and beyond. Without any consideration of a downside scenario, in which changes in the market could lead to concerns about Channel 4's future sustainability under its current ownership and operating model, we feel the report is not a balanced piece of analysis.

The analysis also makes a number of assumptions about the impact a change of ownership may have on support for the independent production sector. Whilst Channel 4 plays an important role in the sector, we have seen the sector rely increasingly less on PSB commissions following the growth of international players. We expect this trend to continue over the next decade and would therefore have expected to see this factored into EY's analysis. The analysis also assumes that Channel 4 with the publisher-broadcaster restriction removed would commission 66% in-house in line with ITV. In reality, we expect it would take a long time for Channel 4 to reach this kind of level of in-house production and that might not be the sole objective of a new owner given the value that exists in creating content via independent producers to remain attractive to Channel 4's unique audience base of younger viewers, seeking risk taking and diverse content.

Future of the TV advertising market

Your letter also asks about forecasts for the future of the advertising market. Linear advertising, which accounted for 74% of Channel 4's revenue in 2020,¹ has been declining across the market at a compound annual growth rate (CAGR) of 2.5% since 2015.² Following record declines in 2020, the Advertising Association/WARC Expenditure Report predicts that advertising spend across the UK media landscape will grow by a record 18.2% this year to reach a total of £27.7 billion.³ Analysts suggest the UK's digital advertising market is set to continue growing faster than non-digital advertising markets with the digital advertising market forecast by some to rise at a CAGR of almost 8% from 2021 to 2025, twice as fast as non-digital.⁴ Broadcasting advertising trends are expected to continue, with advertising spend growth particularly strong across video on demand (VOD) platforms with forecast growth of 20.1% in 2021 and 12.1% in 2022, outstripping the forecast growth in advertising across the whole TV sector of 15.1% in 2021 and 3.4% in 2022.⁵

PSB commissions of independent productions

Finally, your letter asks for further detail on the evidence presented in the consultation around the decline in the proportion of independent production sector commissions coming from PSBs. Since we published the consultation, PACT have released their 2021 Financial Census which shows that in the ten years between 2010 and 2020, the contribution of PSB commissions to independent production sector revenue fell from 58% to 41%, due in large part to the growth of international revenues.

Total sector revenues were £2.13 billion in 2010, of which £1.23 billion were from external commissions by the four main PSB network groups, whilst international TV revenues provided £389 million of support for the sector. By 2020, sector revenues had grown to £2.88 billion. External commissions by the four main PSB network groups were down slightly on 2010 levels at £1.17 billion, whilst international TV revenues were up by £700 million, reaching £1.09 billion in 2020. Of this £1.09 billion, £835 million came from primary

¹ Channel 4 2020 Annual Report

² Enders Analysis (2020) Channel 4 2019, 2020 and beyond

³ Advertising Association/WARC Expenditure report (July 2021)

⁴ PWC (2021) UK edition: Entertainment & Media Outlook 2021-2025

⁵ Advertising Association/WARC Expenditure report (July 2021)

international commissions (£479 million from linear TV services and £356 million from digital services).⁶

I hope this provides you with the clarification that your Committee needs, as we continue to look at the future of Channel 4.

I am copying this letter to my colleague Lord Parkinson, the Minister for Arts.

With Best Wishes,

Julia Lopez MP
Minister of State
Minister for Media, Data and Digital Infrastructure

⁶ PACT UK Television Production Survey Financial Census 2021