House of Lords Communications and Digital Committee

***The Future of Channel 4* report,** November 2021

Department for Digital, Culture, Media & Sport response, January 2022

Introduction

The Government thanks the Committee for its work and notes its findings, including that the unique business model of the Channel 4 Corporation (C4C) poses challenges to its future sustainability, which privatisation may help address. We will consider the report's recommendations, alongside the responses to the consultation, before deciding on how to ensure the broadcaster has a successful and sustainable future.

As set out in our written submission to the Committee, the Government believes the need for public service broadcasting remains as strong as ever. We want to ensure the UK's broadcasting system remains sustainable in an increasingly competitive, multi-platform age, so broadcasters can continue to meet the needs of the public for decades to come. Increased global competition, technological change, and rapidly shifting audience habits pose challenges to all linear TV broadcasters, including Channel 4.

C4C is, however, uniquely constrained in its ability to respond to the challenges under its current ownership model, and it is therefore right that the Government asks questions about how best to support the broadcaster into the future. It is because of the importance of Channel 4 to the creative economy, and because the media landscape is changing, that the Government has consulted on whether an alternative ownership model for C4C - and one where it retains a public service remit - may be better for the broadcaster, and better for the country.

The Government notes the Committee's conclusion that a change of C4C's ownership could potentially bring greater access to capital, allowing for increased investment in programming, content partnerships and technology which would enable the broadcaster to enhance its sustainability, diversify its revenue streams, and allow it to be more ambitious internationally.

A thriving, sustainable C4C would offer the best prospects for long-term job creation and secure the broadcaster's future contributions to our wider creative economy. The Government acknowledges the Committee's views around C4C's role in helping small and medium-sized production companies, particularly in our regions and nations. Whatever decision is made about the broadcaster's future operating model, the Government is clear that any changes will not compromise our commitment to the independent production sector, the creative economy, and our creative powerhouses across the UK.

The Government is exploring C4C's future operating model alongside changes to the public service broadcasting (PSB) system as a whole. It has always been our intention to take forward these two things in tandem and our thinking on C4C will sit within our wider strategic review of public service broadcasting. The Government's work will draw upon reports from the Select Committees in both Houses, Ofcom's latest PSB review which was published in July 2021, and the findings of the Government's own PSB Advisory Panel to inform both its wider PSB reform work, and its final decision on C4C's ownership.

The Government's response to each of the Committee's recommendations are set out below. We have grouped certain recommendations pertaining to C4C's future relationship with the independent production sector together for ease of response.

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1. **If C4C remains in public ownership, we recommend that its board be required periodically to publish analysis of the sustainability of C4C's business model. As part of this process, C4C would be expected to notify the Government of potentially significant threats to its sustainability, at which point the Government might choose to launch a review of C4C's ownership. If the Government wishes to launch such a review without this notification from C4C, it should first be required reasonably to demonstrate the scale of the threat to C4C's business model. The Government should remain circumspect about reviewing C4C's ownership, mindful of the disruption this may cause the Corporation in fulfilling its remit and purpose. (Paragraph 33)**

Response:

The Government is of the view that it should never stand still when it comes to ensuring the success of our public service broadcasters. It is right that the Government is proactive in its approach, looking ahead to the long-term structural shifts in the sector, and doing everything in its power to give C4C the best tools for sustainability into the future.

While C4C is operationally independent of the Government, under its current public ownership model and related governance structures, C4C is subject to certain financial reporting and accounting requirements. These include preparing an Annual Report at the end of every financial year which the DCMS Secretary of State lays before both Houses of Parliament, and, if asked, allowing the Secretary of State to examine their accounts, or providing them with forecasts and estimates relating to the Corporation's transactions and commitments. Moreover, as its parent Department, DCMS meets regularly with C4C at official level to discuss a range of issues.

No decisions on the future ownership model of C4C have been made, and the Government will not rule out further consideration of the Committee's suggestions around governance while it is examining all of the options. We will continue to engage with C4C throughout this process.

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2. Enhanced measurement and transparency of All4 viewing would lead to greater confidence in the sustainability of C4C's business model and enable a more detailed assessment of the competitiveness of the UK broadcasting sector. Ofcom should be able to compare the performance of publicly owned public service broadcasters' video-demand services. (Paragraph 34)

3. Improved monitoring and assessment of viewing data is a priority and we recommend C4C and Ofcom resolve the lack of standardised data as quickly as possible. (Paragraph 35)

Response:

This is ultimately for C4C and Ofcom to lead on, and the Government understands they have already begun working together to agree on what All4 viewership data may be suitable for sharing.

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4. Given the degree of consolidation in the market, in order to uphold their original purpose of protecting small and medium-sized independent production companies, the Terms of Trade should be modified for larger companies and the publisher-broadcaster model should be relaxed. Alongside enabling C4C to retain a greater share of intellectual property rights to the content it commissions, this would also make it possible for C4C to develop its in-house production capacity. (Paragraph 46)

5. Regardless of the question of ownership, we recommend that changes be made to the Terms of Trade for all PSBs, and the publisher–broadcaster model relaxed for C4C. Enabling C4C to invest in IP ownership would substantially enhance its financial resilience and market power in the face of global competition. The interests of large, established production companies should not take precedence over C4C's long-term sustainability. We also recommend that C4C's role in stimulating small, medium, diverse and regional production companies be strengthened, and that the Terms of Trade should be revised to apply to producers with a turnover under a certain cap. (Paragraph 67)

6. The quota on commissioning programmes from independent production companies should be refocused on smaller independent production companies in order to strengthen broadcasters' role in stimulating start-ups and smaller producers. (Paragraph 71)

7. C4C should consider investing more of the existing capital it has highlighted to us, up to its borrowing limit, in the Indie Growth Fund in order to partner with and grow more small, diverse and regional production companies. This would help foster new talent in the independent production sector, alongside helping C4C diversify its revenues. (Paragraph 73)

Response:

Since its inception, C4C has played an important role in supporting independent production in the UK. The sector is now flourishing and increasingly less reliant on income from UK PSBs. In the 10 years between 2010 and 2020, the contribution of PSB commissions to sector revenue fell from 58% to 41%, with C4C contributing 7% of sector revenues in 2020. Total UK production sector revenues increased by more than 30% over the five years to 2019, reaching £3.3 billion in 2019. The export market for UK content has continued to grow with the sector's international revenues exceeding £1 billion in 2019, 30% more than the previous year.

C4C still has an important role to play in supporting independent production, as all PSBs do, particularly in our nations and regions. The Government recognises that C4C's new Leeds HQ and creative hubs in Bristol and Glasgow enhance the opportunities for commissioning programmes from producers right across the UK, reflecting the diversity of our population. The Government also recognises that C4C's '4 All the UK' strategy includes a significant increase in its nations and regions content spend, from its current quota of 35% of spending outside the M25 to a new voluntary target of 50% by 2023.

C4C's strengths in working with independent producers throughout the nations and regions of the UK are precisely the kinds of attributes the Government would expect to be attractive to a buyer, and that any buyer would be likely to nurture and develop through new investment, should the Government decide to pursue a change of ownership.

The Government is mindful of any potential impact of a change of ownership on smaller producers, but notes that in 2019, Channel 4 and Channel 5 held the highest share of commissioning with small and medium sized producers (with a turnover of less than £25m) among the four main PSB network groups. Channel 5 is privately owned, and yet still performs well in this area, and so we believe that there is no reason in principle a privately-owned C4C cannot perform well here too.

The Government's consultation on a potential change of ownership asked questions about the publisher-broadcaster restriction, including whether weakening or removing it could enable C4C to achieve greater financial diversification. The Government also gathered views through the consultation on the independent production commissioning quotas applied to C4C. We are in the process of examining the evidence of a broad range of stakeholders on these issues, alongside the views set out by the Committee in its report, to inform the Government's thinking.

With regards to the Terms of Trade, the Government recognises that the current regime, which applies to all the UK's PSBs, continues to play an important role in supporting the UK production sector, including the ability of independent producers to retain rights, benefit from programmes that are successful, and market them around the world. We are grateful to Ofcom for their work in this area, including as part of its *Small Screen Big Debate* Report. We are considering the Terms of Trade as part of our wider strategic review of public service broadcasting, the conclusions from which will be set out in due course.

On the Indie Growth Fund, C4C is operationally independent of the Government, and their investment decisions are ultimately a matter for the C4C Board and management.

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8. If C4C is privatised, the Government should consider how to mitigate any impact on skills and training, such as a fund to support the development of skills in the TV production industry, including through apprenticeships. (Paragraph 93)

Response:

The Government values C4C's work in developing skills and talent pipelines, particularly in the nations and regions, through its 4Skills strategy. If C4C is privatised, the Government would expect any new owner to have a business interest in supporting the development of talent and skills across the UK creative industries, as many of our public service and other broadcasters already do.

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9. The Government should produce an analysis of alternatives to a change of ownership before proceeding with any sale, including a full and transparent account of projected revenues. The Government should investigate the possibility of raising C4C's borrowing limit to give the Corporation more access to capital while still being publicly owned, and how this could be achieved. (Paragraph 55)

Response:

While the Government consulted on a 'minded to sell' basis, no decisions have been made. The Government continues to remain open to all options to ensure C4C's future sustainability in an fast-evolving and competitive landscape.

The Government is analysing a range of options, including raising C4C's borrowing limit and other alternatives to a change of ownership, and will publish a rationale supporting its decision on the future of C4C.

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10. Regardless of the question of ownership, the Government should implement in full Ofcom's recommendations for PSB prominence. The Government should also review licence obligations and how to ensure fair terms of access to online platforms. (Paragraph 56)

Response:

The Government recognises the need to ensure that high quality public service content is made widely available, and is easy to find for UK audiences on whichever platform they choose to watch it.

The Government has already committed to act on Ofcom's prominence proposals and to take forward legislation as legislative time allows. We will set out more detail - building on Ofcom's prominence recommendations - in due course.

In respect of ensuring fair access to online platforms, the Government is setting up a new pro-competition regime for digital markets which will protect the people and businesses that rely on the services of the most dominant tech firms. The Government set out the design and implementation of the new regime in a public consultation which closed on 1 October 2021. We will publish our response early in 2022 and legislate as soon as Parliamentary time allows.

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11. We recommend that regardless of ownership C4C's voluntary higher quota for production in the nations and regions be codified in legislation and enforced by Ofcom. (Paragraph 88)

12. Regardless of ownership, the quantitative obligations on Channel 4— such as in relation to original production and news—should be retained. The Government should consider introducing quotas related to content expenditure to guard against cost-cutting in this area. (Paragraph 114)

Response:

The Government wants C4C to continue to operate as a public service broadcaster and all public service broadcasters - publicly and privately owned - have both benefits and obligations. The Government has been clear that it sees the value in many of these obligations.

In respect of amending PSBs’ quotas, the Government is considering the balance of benefits and obligations placed on broadcasters as part of its strategic review of public service broadcasting. This work will draw upon reports from the Select Committees in both Houses of Parliament, Ofcom’s latest review of public service broadcasting, and the findings of the Government’s own PSB Advisory Panel.

The Government recognises the important contributions C4C makes across the regions and nations of the UK through its investment in regional production. C4C’s strengths in this space are to be celebrated and maintained into its future.

Our consultation document sets out that the Government is currently of the view that C4C’s existing obligations relating to a high provision of news and current affairs content should be broadly retained in any potential reform.

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