Channel 4—written evidence (BFF0065)

House of Lords Communications and Digital Committee inquiry into BBC future funding

Channel 4 is free-to-air and freely available to all of the UK. We have the UK's biggest free streaming service, All 4, plus a network of 12 television channels.

Since Channel 4 was created in 1982, it has been at the centre of national conversations and a catalyst for the creation of a world-beating production sector in the UK.

Our purpose is to create change through entertainment. We do this by representing unheard voices, challenging with purpose and reinventing entertainment.

Our unique model – commercially-funded but publicly-owned – means that we're able to offer independent and distinctive, universal content reflecting the interests of different communities across the UK. As a publisher-broadcaster, we play a hugely important role in the success of the UK's creative industries, investing in and supporting the growth of the independent production sector and pioneering digital innovation. We work with around 300 creative companies across the UK every year.

We have the youngest-skewing public service channel in the UK and we reach more 16-34-year-olds than any other commercial broadcaster across streaming and TV.

We welcome the opportunity to respond to the House of Lords Communications and Digital Committee inquiry into the BBC's future funding. The BBC plays an important role in the UK's broadcasting ecosystem and it is important that any review of its funding model considers the potential impact on the wider industry, as well as licence-fee payers.

1. How will new technologies and consumer habits change the future broadcasting landscape?

The role of public service broadcasting (PSBs) remains critical in a fast-evolving media landscape. PSBs are at the heart of supporting democratic values, promoting social cohesion and driving investment in world class creativity and skills. Within the PSB ecology, Channel 4 plays a unique role for the British public and British creative industries.

The broadcast landscape is evolving at pace, driven by changing viewing habits and intense competition against a backdrop of rising production costs. It is important to recognise that all broadcasters, however they are funded, are facing market challenges. The key trends affecting the future of the broadcasting landscape that this submission will focus on are shifting viewing habits and greater competition in the market. Channel 4 is at the forefront of adapting to these market evolutions and we are thriving - increasing our overall revenues, driven by outstanding digital growth.

Viewers – particularly younger viewers – want to be able to access content on-demand and on social platforms, choosing to watch content in a way and at a time that suits them

PSBs must adapt to meet the changing needs of its viewers given the central importance of public service reaching all demographics and regions in the UK. Channel 4 has a unique remit to serve younger audiences. In 2020, 15% of Channel 4's overall audience was made up of 16–34-year-olds[1] vs. 7% for BBC1, 7% for BBC2, 9% for ITV & 10% for C5).

And these younger audiences in particular are looking for content on-demand and on social platforms. Research by Ampere Analysis in 2021 showed that 48% of adults considered online services to be their main way of watching TV and film. The growth of on-demand services, both BVoD and SVoD, has been immense. Ofcom's Technology Tracker highlighted that 74% of adults use a BVoD service such as All 4 or BBC iPlayer[2]; and research by Enders Analysis[3] finds that TikTok is the most popular social content platform for younger audiences.

However, terrestrial television services remain vital and popular. Universal access to free-to-view television which underpins the UK's public service broadcasting system is primarily delivered by digital terrestrial television (DTT). Widely known by viewers as Freeview, it remains the most popular way to watch TV in the UK. Freeview represents the single biggest means of accessing public service broadcasting content in the UK – around 40% of households rely on it as their primary TV service, and a further 40% also use it on other sets around the house, equating to a total of over 18 million homes.[4] Industry forecasts suggest 10 million homes will be using Freeview and other DTT services as their main source of TV in 2030, underlining its enduring importance to the broadcast landscape and a cornerstone of the mixed ecology of content.

Ofcom's most recent report on children's media use and attitudes[5] shows that this trend is equally relevant for children and young people. Ofcom found that TV sets were still the most common device on which to watch TV and films, but that eight in ten children also watched TV on a device other than a TV. It reported that 86% of 3-17 year olds watch TV programmes or films on a TV set; 55% watched on a portable device such as a tablet; 47% on a mobile phone; and 27% on gaming consoles. The Ofcom report also found that 89% of 3-17 year olds watch content on YouTube; 50% used TikTok; 42% Snapchat and 41% Instagram.

As PSBs, we need to adapt to this shift in audience behaviour. At Channel 4, we have built our Future4 strategy with new technologies and changes in viewing behaviour in mind.

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1 Annual Report, Channel 4, 2020
2 Ofcom Technology Tracker, 2021
3 Enders Analysis, TikTok Tops the Charts, February 2022
4 BARB Establishment Survey Q4 2021
5 Ofcom Children and parents: media use and attitudes report 2022

Channel 4 is well-placed to rise to the challenges of the changing broadcast market

Key to Channel 4's success is our ability to maintain resonance with younger viewers, our risk-taking model, and our standout investment in digital platforms and technologies. Our Future4 strategy[6] sets out our strategy to invest in digital platforms, lead in digital advertising, and diversify our revenue streams. Channel 4's key goals by 2025 are:

- Double viewing on All 4
- Deliver 30% of total revenues from digital advertising
- Grow non-advertising revenue sources to 10%

The Future4 strategy is already seeing real success. All 4 is the youngest-skewing PSB streaming service, with 35% of its audience aged 16-34. This compares with 30% of the BBC's audience and 31% of ITV's. Channel 4 was the first broadcaster to launch a VoD service and our platform All 4 continues to excel with a record 1.25bn views in 2020, an increase of 26% on the previous year. On social platforms, 4Studio – our Leeds-based digital content studio – is entirely focused on reaching young audiences with bespoke public service content through the likes of YouTube, Facebook, TikTok and Snapchat: in its first full year of operation, 4Studio has overtaken LadBible as the most viewed branded content partner in the UK. Additionally, our digital advertising revenues are rapidly growing, making up 17% of corporate revenue in 2020.[7] This growth is critical to our continued sustainability and represents market leading growth for the broadcast sector.

2. What is the purpose of a national broadcaster?

All British Public Service Broadcasters (PSBs) are national broadcasters. We have remit obligations to deliver value to British audiences, in return for the regulatory benefits that we receive for holding PSB licences (e.g. spectrum access). The PSBs play an important role in the national fabric of the UK - supporting democratic values, promoting social cohesion and driving investment in world class creativity and skills.

Channel 4's unique role is to reach underserved audiences, covering stories not covered by others and supporting the growth of the wider creative sector. As a publisher-broadcaster, we do not owe the IP to the TV content that we commission, but rather we provide a launchpad for hundreds of other UK companies to grow their businesses by selling these titles around the world.

In our opinion, that's the role of a national broadcaster. One that focusses on British audiences first, taking care to represent the whole of the UK, and to make a significant economic and cultural contribution to the country. The British TV industry is hugely successful, and content commissioned for British national broadcasters receives critical acclaim, generates millions of pounds for the

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6 https://www.channel4.com/corporate/future4

7 Annual Report, Channel 4, 2020

British economy, and ensures that British culture and values are represented around the world.

For the past 40 years, Channel 4 has served the UK as a uniquely British organisation that delivers profound cultural, economic and societal impact

There are three pillars underpinning the way Channel 4 operates:

1. Its statutory public service remit for innovation, diversity and risk-taking.

2. Its prioritisation of public service whereby public outcomes are prioritised over commercial ones.

3. Its publisher-broadcaster status, whereby all programming investment is with independent suppliers across the UK.

Under our current ownership model and remit – which we strongly believe should be maintained - we deliver impact for the UK in a number of different ways, at no cost to the British taxpayer. Through our distinctive British public service content; our focus on serving young people; our support for SMEs across the whole of the UK; our commitment to levelling-up the creative economy and our commitment to supporting Britain’s cultural power globally through Film4’s support for British independent filmmakers, Channel 4 truly represents the definition of a national broadcaster.

Future of Channel 4

Channel 4 is an organisation that embraces change, and we share the Government’s stated objectives to enhance Channel 4’s unique role in broadcasting, and to ensure the organisation thrives for another 40 years. From the moment Channel 4 was created to be a radical, innovative force in UK broadcasting, it has been changing and evolving. As a national asset, it is right that we regularly consider what more we can do to deliver and increase our impact, both for British audiences and the UK economy. We therefore welcome the Government’s ongoing consultation on the future ownership of Channel 4. However, we do not believe that a change of ownership is required in order for us to be able to continue to deliver on our remit for generations to come.

However, the Government’s consultation is an opportunity for Channel 4 to consider how it could deliver even more for the benefit of the British people. There are three areas in which we believe Channel 4 could build the most impact. We intend to:

1. Excel as the young people’s PSB streamer, investing £50 million more in content for younger viewers across genres, focused on streamed and social content.

2. Expand as a publisher-broadcaster internationally, increasing our Global Format Fund to help indies create new formats with global potential; and launching an advertiser-funded international streaming service

3. Accelerate our role as a public service catalyst across the UK, with £5 million of investment to reach 15,000 young people annually with training and development initiatives from 2022; including a new digital academy for young people from lower socio-economic backgrounds.

Channel 4 is delivering essential cultural, economic and social impact for the whole of the UK. These three ambitions will ensure that Channel 4 thrives while delivering more value to viewers, supporting more jobs and projecting British culture, values and creative excellence overseas. This is the role of a national broadcaster which we are proud to be.

3. What principles and priorities should inform the choice of the BBC's funding model? And how would any alternative funding models affect what the BBC can provide?

The BBC is – and as a national broadcaster should continue to be – universally available. Legislation requires that Digital Terrestrial Television (DTT) is accessible to at least 98.5% of the UK population and "must carry, must offer" regulatory obligations ensure that PSB channels are carried on other platforms and services.

Any changes to the BBC's funding model must not affect the BBC's ability to continue to provide a service that is available to everyone in the UK.
The decision about how the BBC is funded is a matter for Government, with input from Parliamentarians such as this Committee. We do not have a corporate position on this issue.

However, the current PSB ecosystem is finely balanced and complementary, with a mix of public and commercial funding. Any changes to one part of the ecosystem is likely to have an impact on others. This should be carefully assessed as part of the analysis of the impact of any changes to the BBC's funding model.

In our opinion, the key priorities that should be used to inform the choice of funding model for the BBC in future are:

1. That the BBC remains sufficiently well-funded to be able to continue to deliver on its regulatory obligations

2. That the BBC is funded in a way that is fair and transparent to those who pay for it

3. That changes to the way that the BBC is funded do not have an adverse effect on its suppliers or other PSBs

A key priority for Channel 4 is that advertising does not feature in the future funding model of the BBC.

There is a finite amount of TV advertising revenue spent in the UK each year across all the commercial broadcasters, approx. £4.5 billion in 2021. Revenue is split as follows: ITV 45%; C4 28%; Sky 27%. If the BBC was to enter into this market, the proportionate amount of revenue that the advertiser- funded broadcasters could generate would be reduced, with a detrimental impact on the whole broadcasting ecology.

Analysis conducted by Ampere Analysis in 2020 supports this claim, concluding that introducing adverts on the BBC would have a highly disruptive impact on the commercial PSB ecosystem.[8] Richard Broughton reiterated this view during an oral evidence session on this inquiry, stating that: "if you were looking at switching all the [BBC] TV and radio services over to an ad-supported model, you could be reasonably optimistic that it would make £2 billion to £2.5 billion a year, but it would have a negative effect on Channel 4, ITV and Channel 5 and so on. You would end up with a shortfall of between £1.2 billion and £1.4 billion compared to the current licence fee model."[9]

This view was supported by another independent consultant, Mark Oliver from Oliver & Ohlbaum who noted that he was: "not in favour of advertising on the BBC. Not only is there a limited pot of money—it is possibly slightly more money, but it means that you are immediately dipping into rivals', some of which also have public service obligations—but advertising funding tends to make you very ratings focused, which might draw against the public purposes. So for practical reasons such as there being a limited amount of money and it having a direct impact on many others directly, and because of the purposes and the conflict between them, I would not want advertising."

The Government must carefully consider alternative funding models and be conscious of the unintended consequences of change. It is right that the Government should consider the future funding of the BBC. However, any reforms must be in the best interest of viewers and must not have a negative impact on the rest of the broadcasting ecosystem.

4. How should the BBC change over the next five years to adapt to evolving consumer habits and needs - and what does the Corporation need to do to prepare for the future in the longer term?

Channel 4 believes that it is vitally important that the UK maintains a strong and vibrant public service broadcasting (PSB) ecology. A strong BBC is central to that success. The BBC is and must continue to adapt – it must remain culturally relevant, be visible where audiences are, and evolve to appeal to the needs of a wide range of audiences.

Like Channel 4, the BBC must remain relevant and accessible to all of its audiences. How the BBC achieves this is a matter for the BBC Board and Executive team, who set the strategy for the corporation.

A stable source of funding and a fair regulatory landscape will aid the BBC in rising to future challenges and enable the corporation to better meet the challenges that it will face over the next 100 years of its history.

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8 Ampere Analysis Insights
9 https://committees.parliament.uk/oralevidence/10020/pdf/

5. What actions and consultations are needed from the Government to inform its future BBC funding plans?

The Government must seek input from a range of different stakeholders to form a representative view of the impact of market changes to the BBC. Ensuring formal consultative input from the widest possible group of stakeholders - including the public, industry, and civil society - will ensure the BBC's future as a competitive PSB is secured.

Furthermore, there are some immediate regulatory changes that the Government could and should introduce as soon as practicable to support the future sustainability of the BBC – and of all PSBs.

The regulatory framework must evolve to keep pace with changing viewing and technological trends. The 'PSB compact' - the exchange of regulatory assets to deliver significant obligations - is at the heart of the UK's public service media ecosystem. In order to meet regulatory obligations, such as quotas, the PSBs receive regulatory benefits such as access to spectrum and linear prominence. Whilst the broadcast landscape has evolved at pace and will continue to do so, the PSB compact has not.

We strongly believe that the PSB compact needs to be modernised so that it reflects the modern media landscape. The top priority should be updating prominence rules –the regulatory lynchpin which holds public service broadcasting together. Public service broadcasting content must be easily accessible to viewers.

The current prominence regime was designed for the linear TV era and the rules have not evolved. Currently there is no guarantee that the Electronic Programming Guide or PSB VoD services are available on devices where viewers consume content. Therefore, regulation is required to ensure that content produced by public service broadcasters reaches the widest audience possible.

We welcome the support of this Committee in recognising the necessity of prominence reform. As highlighted in your report 'Public service broadcasting: as vital as ever': "*we believe that it is more important that PSBs are easy to find in a fragmented media environment, not less*." [10]

Prominence reform has the support of Ofcom, the DCMS Select Committee, and most recently the Government announced its intention to reform prominence legislation in the upcoming proposed Media Bill.

April 2022

10 Public service broadcasting: as vital as ever, House of Lords Select Committee on Communications and Digital, 2019