

Alex Mahon, Chief Executive Officer, Channel 4—written evidence (FCF0043)

House of Lords Communications and Digital Committee inquiry into the future of Channel 4

Thank you for the opportunity to submit evidence to the Committee on the question of the future of Channel 4. This is an important question with significant implications for UK viewers and for investment and jobs in the UK's creative sector. It is therefore vital that there is a wide-ranging and informed public debate on the issue. Rigorous parliamentary scrutiny is an important and necessary part of this process. We therefore welcome the Committee's inquiry and look forward to engaging with the Committee.

The Channel 4 Television Corporation has held an important place in the UK's cultural landscape ever since it was established by the Thatcher Government almost 40 years ago. Our current ownership model – which sees us in public hands, at no expense to the public, fully focused on delivering value for the public – has helped to underpin the success of a key British institution.

As an independent statutory corporation accountable to Parliament (distinct from a non-departmental public body), Channel 4 has a responsibility to set out its view on the likely consequences of privatisation, how we deliver impact today, and our plan for further growing impact in future.

We are sharing with the Committee the detailed written evidence¹ we submitted to the Government's recently concluded consultation on 'A potential change of ownership of Channel 4 Television Corporation' (referred to below as the "Channel 4 submission"). We also recently asked EY to help us to objectively and independently consider the impact that a different ownership model of Channel 4 might have and we attach the analysis that EY has produced.²

Together these documents provide extensive and detailed evidence in response to your questions. We also include summary answers to the specific questions raised by the committee below, referring to the relevant sections of the documents.

1. *What, if any, developments over the last five years give cause to re-evaluate the ownership of Channel 4 Corporation?*

Over the last five years, changes in the broadcasting landscape have continued apace – and therefore the Government is right to periodically

¹ https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20Channel%204%20response%20to%20DCMS%20consultation%20-%20FINAL%20%28accessible%29.pdf

² https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf

review our ownership and business model. However, whilst we agree that there are challenges in the current broadcasting market, these affect all broadcasters and do not present barriers to a publicly owned Channel 4. Indeed, Channel 4 is responding better to these challenges than its main competitors, and Channel 4's model is in a robust place to face the future. Our model is robust and resilient. Despite the worst global recession in living memory, Channel 4 ended 2020 with a record financial surplus of £74m, a result of prudent cost management across the business combined with strong viewing performance. Though linear revenues are declining, Channel 4 is addressing this challenge head-on by transforming itself into a digital-first public service media company. In 2020, digital advertising made up 17% of total revenues, compared to 9% for our peers, and 2020 continued a longer-term trend of market leading robust digital growth, with digital advertising revenues having doubled since 2016.

Looking to the future, our Future4 strategy has been designed specifically to address market challenges and to prioritise digital growth. This strategy is delivering success, and our revenue is growing (with 2021 Corporation revenues forecast to exceed £1bn for the first time in Channel 4's history). It is possible that a change of ownership could act as a drag anchor on Channel 4's digital transition – slowing down our rate of change and creating risks to our ongoing success and economic contribution.

For more detail, we refer the Committee to our answer to Question 1 in the Channel 4 submission.³

2. *If Channel 4 Corporation were privatised, what would be the benefits? What would be the risks and to what extent could they be mitigated?*

Channel 4 has thrived for nearly 40 years under public ownership. It is 100% commercially funded with zero cost to the taxpayer, and has been a key pillar within the UK's mixed PSB ecosystem. Given that private ownership is likely to alter the incentives of Channel 4 to focus more on maximising revenues and profits, we are concerned this could undermine the extent to which a privatised Channel 4 champions its remit. For example, independent analysis by Ampere found that '*a private owner would almost certainly need to focus on cost-reduction to grow margins...(this) would likely come at the expense of content expenditure*'.⁴

Additionally, it will be extremely challenging to mitigate the effects of these commercial incentives through regulation, to ensure a privatised Channel 4 delivers the same public benefit. It is possible to regulate for quantifiable measures, such as the number of independent production companies Channel 4 commissions content from. However, it is extremely challenging to regulate for the breadth of Channel 4's impact and delivery of its remit since it is more intangible: regulation cannot replace corporate

³ <https://assets-corporate.channel4.com/flysystem/s3/2021-09/September%202021%20-%20Channel%204%20response%20to%20DCMS%20consultation%20-%20FINAL%20%28accessible%29.pdf>

⁴ Ampere Analysis, Channel 4 privatisation: assessing the options, Sep 2021
<https://www.ampereanalysis.com/report/channel-4-privatisation-assessing-the-options>

culture, which is driven by the incentives of the organisation. We are therefore concerned that the range and breadth of Channel 4's public service impact could be minimised.

Further, we consider it important that Channel 4 continues its significant contribution to levelling up the Nations and Regions. Our commitment to this goes significantly beyond what would be commercially optimal if we were seeking to maximise commercial returns, both in scale and scope. We are therefore concerned that private ownership could lead to a scaling back of this substantial contribution.

For more detail, we refer the Committee to our answers to Question 2 and 3 in the Channel 4 submission;⁵ and to the attached report produced by EY.⁶

3. *If Channel 4 were to remain in public ownership, what would be the benefits? Insofar as they are valid, how could concerns about its longer-term viability be addressed*

The Channel Four Television Corporation has occupied an important place in the UK's cultural landscape ever since it was established by the Thatcher Government almost 40 years ago. In that time, it has become a unique public service media company and British success story, acting as a catalyst in building the UK's independent production sector, creating thousands of jobs across the country and serving generations of young people.

There are three fundamental pillars underpinning the way Channel 4 operates:

- Its statutory public service remit for innovation, diversity and risk-taking.
- Its prioritisation of public service whereby public outcomes are prioritised over commercial ones.
- Its publisher-broadcaster status, whereby all programming investment is with independent suppliers across the UK.

These three elements of Channel 4's model work to support each other – changing one element could have the unintended consequence of undermining others. As a result of these inter-locking pillars, Channel 4 remains unique in the UK media landscape:

- Channel 4 is a free-to-air broadcaster that is owned by the public, to serve the public, and funded wholly by commercial revenues at no cost to the public.
- For forty years, Channel 4 has grown, evolved, and modernised

⁵ https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20Channel%204%20response%20to%20DCMS%20consultation%20-%20FINAL%20%28accessible%29.pdf

⁶ https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf

around this hybrid model.

- Channel 4's positive impact both for British viewers and the UK's creative economy is significant – our programming has enriched people's lives and transformed social attitudes, and our investment in the UK's creative industries has helped create and sustain the UK's production sector across the Nations and Regions of the UK.
- Channel 4's public ownership and not for profit model enable us to prioritise the delivery of our remit rather than the delivery of profits, while operating in a competitive market ensures we are an efficient organisation. Our publisher-broadcaster model then enables us to funnel commercially sourced revenues back into the creative sector – at no cost to the taxpayer. Profit-led models play an important and valuable role in the UK's broadcasting ecosystem, but it is important to recognise the different priorities and incentives at work between different models, and the role that Channel 4's hybrid model plays in the outputs it delivers both on and off screen.

For more detail, we refer the Committee to the Introduction of the Channel 4 submission;⁷ and to the EY report.⁸

With regard to our longer-term viability, Channel 4 is already addressing the market challenges head-on. Channel 4 is firmly committed to its status as a wholly commercially funded organisation and has no intention of seeking Government backing or funding of any kind. Channel 4 ended 2020 with a financial surplus of £74 million – our highest-ever surplus – and cash reserves of £201 million, which means we are well placed to invest in our future independently.

As the Committee will be aware, in 2020 we launched our Future4 strategy, which has been designed specifically to address the challenges identified by DCMS. Future4 builds upon our strong track record of digital innovation and is accelerating our pivot to digital by driving both online viewing and new revenues. It is an ambitious and comprehensive plan to transform Channel 4 into a digital PSB that retains its distinctive brand and public service impact.

Our transformation into a digital-first entity is planned with key targets. By 2025, we will:

- Double viewing on All 4, to reach two billion streaming views by 2025;
- Deliver at least 30% of total revenues from digital advertising; and

⁷ https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20Channel%204%20response%20to%20DCMS%20consultation%20-%20FINAL%20%28accessible%29.pdf

⁸ https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf

- Earn at least 10% of total revenues from non-advertising sources.

For more detail, we refer the Committee to our answer to Question 1 in the Channel 4 submission.⁹

4. *Should the regulation and/or remit of Channel 4 be changed, irrespective of its ownership? What would be the risks and benefits of any such changes to the UK Public Service Broadcasting system?*

The Channel 4 remit is a vital element of the UK PSB ecosystem and offers something unique to viewers. It is important that this remit is safeguarded and not diluted. As articulated in our response to Ofcom in their recent review of public service media, we believe there is opportunity through Ofcom's recent review and the Government's forthcoming White Paper to modernise the remit, in particular to better reflect the way viewers now watch content.

For more detail on our proposals regarding remit evolution, we refer the Committee to our answer to Question 4 in the Channel 4 submission.¹⁰

A key element of Channel 4's remit that the Government consultation proposes to amend is the removal of our publisher-broadcaster status. Importantly, independent economic analysis by EY finds that removing publisher-broadcaster status would harm the creative sector and lead to job losses, especially amongst smaller firms. We also believe that removing this restriction is unnecessary for Channel 4's long-term growth – our performance to date demonstrates that we are able to evolve and generate new revenue streams without this change.

For more detail, we refer the Committee to our answer to Question 5 in the Channel 4 submission.¹¹

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⁹ <https://assets-corporate.channel4.com/flysystem/s3/2021-09/September%202021%20-%20Channel%204%20response%20to%20DCMS%20consultation%20-%20FINAL%20%28accessible%29.pdf>

¹⁰ *Ibid.*

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