

HM Government-Department for Digital, Culture, Media and Sport—written evidence (FCF0047)

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

The Department for Digital, Culture, Media and Sport is pleased to respond to the Select Committee's call for evidence on the future of Channel 4, as Ministers consider responses to our own consultation on this issue. We look forward to the Committee's findings when they are published.

Summary

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 linear TV broadcasters, including Channel 4. In that context, the Government consulted on whether an alternative ownership model for Channel 4 (but one where it retains a public service remit) may be better for the broadcaster, and better for the country.

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

As the government's consultation document sets out in more detail the challenges for public service broadcasters have intensified in recent years. Rapid changes in technology, changing audience habits and increased global competition from big players with deep pockets like Netflix, Amazon and Disney are key challenges for all linear TV broadcasters, including Channel 4.

Indeed, Ofcom, in their latest recommendations to the government on the future of public service media published on 15 July, outlined what it called the 'rapid change in the industry – driven by global commercial trends and a transformation in viewing habits – [which] is making it harder for public service broadcasters to compete for audiences and maintain their current offer.'

Channel 4 is uniquely constrained in its ability to meet these challenges while it remains under public ownership – particularly because its access to capital and ability to both diversify its income streams and pursue strategic partnership opportunities are limited.

Its current reliance on advertising and events-driven sponsorship activities expose it to market fluctuations and the decline in linear TV advertising spend relative to digital. We are also seeing a wave of consolidation that may make the challenges for a publicly owned Channel 4 more pronounced.

It is therefore the government's view that now is the right time to look again at how we ensure Channel 4's ownership model best supports its ability to be a

sustainable public service broadcaster for years to come.

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

Moving Channel 4 into private ownership could allow it to access new capital, take advantage of international opportunities, and create strategic partnerships only available through the private sector. Changes to Channel 4's ownership model may also allow it to diversify its income streams, enable it to invest in new technology and produce new content and programming.

Whatever decision the Government reaches on the future ownership of Channel 4, we intend to maintain Channel 4's public service remit and could strengthen it in certain areas. The government does not accept that private ownership and being a public service broadcaster are mutually exclusive.

Indeed, this is a success story we have seen in commercially-owned public service broadcasters in recent years. ITV has successfully increased and diversified its income with the creation of ITV Studios – something Channel 4 is not easily able to replicate in its current ownership model and publisher-broadcaster requirements. Similarly, Channel 5 has thrived following its sale to ViacomCBS, seeing its group audience share grow from 5.8% to 6.4% in the three years following its sale, winning 'Channel of the Year' in 2020 and being the only public service broadcaster to grow its all-hours share in 2019.¹

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?

As the consultation document set out, Channel 4 has been successful in delivering its public service remit and has made significant contributions to the UK's cultural landscape. In more recent years, Channel 4's enduring, and significant, value to the public has been threefold. It has contributed significantly to growing the independent production sector in the UK, which is now thriving and seeing a boom in international revenues with 158% growth between 2014 and 2019 from £484 million to £1.25 billion. It has produced diverse and risk-taking content, as a result of taking more creative risks than other broadcasters and providing programming that appeals to the tastes and interests of a culturally diverse society across the regions and nations of the UK. Finally, it has shown a broad range of high-quality programmes, with audiences consistently rating Channel 4 more highly than other PSB services in taking creative risks, tackling issues that other broadcasters would not, and enabling alternative voices to be heard.²

As set out above, it is the government's current view, which we are testing through consultation, that a change in ownership would be the best way to ensure Channel 4 remains a sustainable, successful broadcaster over the long

¹ Enders Analysis (2017): Channel 5: three years on from Viacom's acquisition.

² Ofcom (2020): Channel 4 Corporation's performance in delivering its media content duties 2014– 2018, and O&O/PACT (2020): UK Television Production Survey Financial Census 2020.

term. That could allow Channel 4 to diversify its income streams, invest in content and production across the UK with greater access to capital, and form new strategic partnerships.

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 consultation asked for views and evidence on whether the government should consider revising Channel 4's remit and obligations. We have been clear, however, that Channel 4 will retain a public service remit whatever decision we reach.

The consultation asked specifically whether the government should consider removing or relaxing the publisher-broadcaster restriction to enable Channel 4 to diversify its income. Unlike other broadcasters, Channel 4 does not derive significant revenues from productions – mainly as a result of the prohibition, by way of its publisher-broadcaster status, from being involved in the making of programmes to be broadcast as part of the Channel 4 service without first seeking regulatory approval – and limited revenue from the sale of secondary rights.

We recognise that any change to the restriction may have implications for the UK's independent production sector, and as the consultation sets out, the government is willing to consider other options to mitigate this impact. For example, Channel 4 (and all other public service broadcasters) are already required to ensure 25% of their PSB content is commissioned from independent producers. This obligation could be enhanced to mitigate the implications for independent producers whilst also affording Channel 4 the opportunity to diversify into production in order to insulate itself against changes in the sector.

Perhaps most importantly, though, forty years on from the foundation of Channel 4, independent production in the UK is flourishing. The incredible growth of the sector has seen the contribution of non-PSBs to sector revenue rising from 36% to 58% due in large part to the growth of international revenue. It is the government's assessment, which we are testing through consultation, that changes to the publisher-broadcaster restriction could allow Channel 4 to achieve greater financial diversification and shift its reliance away from linear advertising revenues.

Next steps

The consultation on a potential change in ownership of Channel 4 closed on 14 September. We are now analysing the responses and will publish our response in due course.

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