



## Consultation on a potential change of ownership of Channel 4 Television Corporation

1. *Do you agree that there are challenges in the current TV broadcasting market that present barriers to a sustainable Channel 4 in public ownership? Please provide supporting evidence.*

Given that the government is proposing to privatise Channel 4, the burden of evidence is on the government to provide evidence that doing so would benefit both the channel and the British public. To date, the government has provided no evidence. Neither has the government provided any evidence that Channel 4's current Future4 strategy – which aims to make it far less reliant on linear TV advertising, and which it is so far implementing successfully – has less chance of making Channel 4 financially sustainable than switching to a profit-driven private ownership model.

UK broadcasters face a number of challenges, including declining advertising revenue, long-term falls in shares of viewing due to increasing competition from well-funded online streaming services, and high programme cost inflation as competition to secure talent and production resources increases. But although there are challenges in the current TV broadcasting market, there is nothing about being *publicly owned* that makes Channel 4 less sustainable in this context.

The government's concerns about Channel 4's financial sustainability appear to be based on the fact that around 90% of Channel 4's income currently comes from advertising. That challenge would still exist if Channel 4 were privately owned. In fact, it would be compounded by the added financial burden of having to generate profit for shareholders. Being publicly owned makes Channel 4 *better placed* to deal with the aforementioned challenges since there remains an option of offsetting declining TV advertising revenue with new forms of public funding.

Under its original funding model Channel 4 carried advertising sold through the ITV network, protecting it from direct commercial pressures. This was an innovative solution at the time, and a return to this kind of creative thinking could secure Channel 4's future. For example, the government could help Channel 4 reduce its dependence on TV advertising revenue by imposing a 5% tax on advertising spending in the UK, and giving the proceeds to Channel 4. In 2020 total UK

advertising spending was £23.5 billion, despite the pandemic.<sup>1</sup> That means a 5% tax would raise in the region of £1-1.2 billion. A tax on all forms of advertising would be equal across formats, and spread across a range of parties (including Google and Facebook, who accounted for 80% of online ad spending in the UK last year), giving Channel 4 a source of funding that is guaranteed to increase in the future.<sup>2</sup>

If such a proposal were implemented, Channel 4 could become an ad-free channel and streaming service, leaving it far better placed to compete with the largely ad-free US streaming giants. It would also have a larger annual budget and, by eliminating the operating costs of having to sell advertising, would be able to spend more of its income on commissioning programmes. Revenue would also rise in line with UK advertising spending.

In addition, this small tax could be supplemented by a tax on Pay-TV and subscription streaming services. These services – including Sky – currently have no obligations to produce public service programming. Instead of imposing obligations on them to do so, they could be taxed, with the revenue used to increase the budgets and capacities of UK’s public broadcasters. Ofcom estimates that in 2020 online subscription entertainment and audio-visual services generated revenue of £3.4 billion in the UK (although this includes music streaming services like Spotify). This, together with the roughly £13 billion in annual revenue that Sky, the UK’s main Pay-TV operator, generated in 2020, could provide a further source of funding to support UK programme production.

In our view the government ought to be consulting on what *more* it could do to support the UK’s publicly owned broadcasters as they respond to the rise of the US streaming giants. But instead of considering a range of policy options to improve Channel 4’s sustainability as a publicly owned broadcaster, the government is considering only one policy – privatisation – which will likely cause considerable damage to the channel and the UK’s media ecology on which the British public rely.

The pandemic has underscored the importance of public media. In its recent recommendations to the government on the future of public service media (PSM), Ofcom said:

Our research consistently shows that high-quality trustworthy and accurate news is one of the most important aspects of public service broadcasting on both a personal and societal level. ... In the first week of the Covid-19 pandemic, the percentage of people who said they trusted information from the public service channels was over 80%. This compared to 30% of people who trusted news from websites/apps of online news

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<sup>1</sup> According to AA/WARC data. See IAB UK, [‘AA/WARC: Ad market set for strong rebound’](#), 29 April 2021

<sup>2</sup> Total UK ad spending was £15.5 billion in 2010, according to AA/WARC data, meaning the ad market has grown by 51.6% over the past decade.

organisations (such as BuzzFeed, Huffington Post, Vice) and 55% who trusted printed newspapers.<sup>3</sup>

Netflix and the Disney Channel may have *entertained* audiences during the pandemic, but neither was able to *inform* or *educate* the different publics within the UK – which was especially important at a time of local lockdowns and widespread disruption of schooling. Far from making PSM obsolete, the growth of streaming services makes it clear how important it is to support distinctive, locally produced programming aimed at the UK’s diverse audiences.

2. *Would Channel 4, with a continued public service broadcasting licence and remit, be better placed to deliver sustainably against the government’s aims for public service broadcasting if it was outside public ownership? Please provide supporting evidence.*

Channel 4 is financially healthy, delivers on its public service obligations, and is implementing its Future4 strategy to secure its future sustainability. Public ownership means that Channel 4 can reinvest any surpluses it generates in commissioning more, or better, programmes instead of having to distribute funds to shareholders.

It is likely that in order to ensure a sale, a privatised Channel 4 would operate with a reduced public service remit.<sup>4</sup> Privatisation would also reduce the funds Channel 4 is able to spend on content because it would have to generate a profit for its shareholders. This would inevitably lead to a reduction in both the quantity and quality of output in unprofitable but socially important genres like news and current affairs.

It is also likely that a commercial owner would lobby for Channel 4’s remit to be further diluted or abolished over time, in much the way that the commercial PSBs lobbied for their programming quotas in key PSB genres to become a matter of ‘self-regulation’ in the 2003 Communications Act. The result of loosening programming requirements on the commercial PSBs has been a fall in output in several PSB genres, particularly between 2008 and 2013, as Ofcom’s own regular PSB reviews show.<sup>5</sup> The Commons DCMS Committee’s report earlier this year on the future of public service broadcasting criticised the effect that removing PSB quotas for children’s programming has had on provision, with the BBC left as virtually the only commissioner of original content for

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<sup>3</sup> Ofcom, [Small Screen: Big Debate – Recommendations to Government on the future of public service media](#), 15 July 2021, p. 21-22

<sup>4</sup> According to the commercial research firm Enders Analysis, “We believe that it will be difficult to maintain the remit with a new buyer paying any more than a meagre sum, and even if that happens, a profit-oriented buyer will have incentive to game the obligations.” See Enders Analysis, [Channel 4: Privatisation, here we go again](#), 22 June 2021, p. 1

<sup>5</sup> Between 2008 and 2013, across the PSBs, there were falls in hours of first-run originated output of 9% in Arts & Classical Music, 78% in Education, 11% in Drama & Soaps and 28% in Children’s programming. See Ofcom, [PSB Annual Report - December 2014: Annex 1 - PSB spend and output](#), p. 29

children in the UK.<sup>6</sup> Ofcom's children's content review in 2018 found that PSB investment in UK children's programming had fallen from £144m in 2006 to £81m in 2017 in real terms, and that there was no PSB programming specifically made for 13-15 year-olds.<sup>7</sup>

The rationale for public service broadcasting requirements is simple and well-known. According to Ofcom:

Public service broadcasters differ from other commercial broadcasters in that they are required to provide services that fulfil societally valuable purposes across their range of programmes, including the provision of genres of particular societal value ... Other content providers may (and do) produce programmes which have societal value, but they do not have an obligation to do so and the continued provision of such content will always be determined by its commercial viability. ... Some genres will tend to be underprovided by the market, such as news (including regional news), arts, religious and children's programming due to a range of commercial factors. Without a regulatory intervention, there may also be limited provision of content that has a uniquely UK cultural perspective or sensibility as these tend not to sell well to other markets.<sup>8</sup>

Privatisation in other sectors has in many cases led to worse services and higher prices because organisations are run in the private interests of their shareholders rather than in the interests of the wider public.<sup>9</sup> The government has not presented any evidence that the public would benefit from the privatisation of Channel 4, nor how the usual problems resulting from privatisation would be avoided. Despite the obvious risks for the public, the government has stated it will not conduct an impact assessment before making a decision about any change of ownership.

### 3. *Social public service value*

*Should Channel 4 continue its contribution to levelling up the regions and nations of the UK through retaining a presence outside London and a strengthened regional production remit? Please provide supporting evidence.*

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<sup>6</sup> House of Commons Digital, Culture, Media and Sport Committee, [The future of public service broadcasting - Sixth Report of Session 2019-21](#), 25 March 2021, p. 17, paragraph 49

<sup>7</sup> Ofcom, [Children's content review: update - Assessing the current provision of children's programmes on TV and online](#), 24 July 2018, p. 17, paragraph 5.2; p. 22, paragraph 5.28. See also p. 16, paragraph 4.9: "Commercial broadcasters tell us that there is limited and falling financial return across all children's genres, and that investing in children's programming has become more high-risk over time. They argue that the economics of producing children's content are challenging in the current market, due to the limited commercial returns given the potential audience size and advertising restrictions."

<sup>8</sup> Ofcom, [Small Screen: Big Debate Consultation – Annex 6. Why public service broadcasting still matters](#), 8 December 2020

<sup>9</sup> See e.g. Massimo Florio, *The Great Divestiture: Evaluating the Welfare Impact of the British Privatizations, 1979-1997* (MIT Press 2004)

As the government's levelling up agenda recognises, the concentration of the UK economy in London and the South East is detrimental to the country as a whole. The TV and film industry is similarly concentrated. Channel 4 supports production across the UK and is required to do so by the terms of its licence, which are set by Ofcom in accordance with requirements in the 2003 Communications Act. This obligation should be strengthened by devolving and distributing commissioning, and by focusing on small and medium-sized enterprises (SMEs) rather than super-indies (defined by Ofcom as companies with turnover of over £70m) which are concentrated in the south-east of England and many of which are not even UK-owned.

In 2020, 52.5% of the UK's public service broadcasters' budgets were spent inside the M25.<sup>10</sup> Channel 4 has increased the proportion of its first-run originated content spend outside of London from 39% in 2010 to 47% in 2020.<sup>11</sup> This is a positive trend, but the 53% remaining in London is still hugely disproportionate to the capital's share of the UK population. The relocation of Channel 4's headquarters to Leeds and the creation of the Glasgow Creative Hub are welcome moves, along with its Emerging Indie Fund and 4Skills programmes, which are supporting people outside London to enter the creative industries. But the shift towards more distributed programme production needs to continue and it needs to be accompanied by substantive changes to how funding is distributed and with what conditions. Regional spending, for example, should be combined with the promotion of higher labour standards; not just creating jobs but creating good, well-paid jobs across the country. All PSBs should be required to set labour requirements for independent production companies commissioned to make programmes, such as payment of the local living wage, diversity of recruitment (and promotion) and no use of unpaid interns.

The growth of the streaming sector makes it even more important that the UK has public service media like Channel 4, whose remit requires them to commission UK-originated programming. As the Commons DCMS Committee noted in its recent report on public service broadcasting:

PSBs have been described as underpinning the wider creative economy and whilst SVoDs are beginning to invest more in production in the UK, the number of UK-originated content hours is hardly comparable. In 2019, PSBs provided approximately 32,000 hours of UK-originated content, whereas Netflix and Amazon Prime combined provided 164 hours.<sup>12</sup>

Research has shown that even when programmes commissioned by streaming services are set and produced in the UK, they have fewer British idioms and references because they are aimed at an international audience.<sup>13</sup> Without a policy response from government, the trend will inevitably be

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<sup>10</sup> Enders Analysis, [Programming outside the London bubble: Regions to be cheerful](#), 16 July 2021

<sup>11</sup> Enders Analysis, [Programming outside the London bubble: Regions to be cheerful](#), p. 21

<sup>12</sup> House of Commons Digital, Culture, Media and Sport Committee, [The future of public service broadcasting - Sixth Report of Session 2019-21](#), p. 22, paragraph 66 (citing data from Ofcom's [Media Nations 2020](#) report, p. 83)

<sup>13</sup> Enders Analysis, [Outsourcing culture: When British shows aren't 'British'](#), 9 March 2021.

towards greater underrepresentation for the nations and regions outside of London, since these are more unfamiliar internationally.

In summary, privatising Channel 4 would likely undermine the government's levelling up agenda, since a commercial, profit-driven owner will almost certainly seek to reduce or avoid regional commissioning requirements. In moving much of their production to other regions, the BBC and Channel 4 are going against the commercial logic that profit-driven firms are following.

4. *Should the government revise Channel 4's remit and obligations to ensure it remains relevant in an evolving broadcast market? If yes, what changes should be made (which could include new freedoms or changes to its obligations)? Please provide supporting evidence.*

With increasing competition from US-based streaming services, Channel 4 needs to offer content that is distinctive to remain relevant. Any revised remit must refocus on serving minority audiences, supporting innovative programming and film production. completely free from commercial pressures.

Alongside this, Channel 4 should have new obligations to prioritise commissioning from SME production houses rather than super-indies. In addition, its existing role in promoting digital innovation should be recognised and supported, including where this can support more participation from audiences.

Channel 4's original remit was to 'innovate in the form and content of programmes' and 'to reach new audiences not catered for currently by British television'. Its role in serving minorities in its early years was ground-breaking, and it provided mass audiences with opportunities to encounter experimental film, world cinema, innovative and challenging drama, serious discussions on arts and politics, and under-represented views of all kinds. The Media Reform Coalition believes that any revised remit needs to strengthen these core principles, while recognising contemporary opportunities and challenges.

Channel 4's public remit has been steadily undermined by the commercial pressure to generate advertising revenue since the early 1990s. These pressures intensified after the explosion of available TV channels with the digital switchover, and more recently the arrival of streaming and on-demand video platforms. This has led to a greater reliance on tried-and-tested, cheaper to produce formats that deliver large audience volumes at low cost: reality TV like *Big Brother* and game shows like *Deal or No Deal*.

Channel 4's history already shows how commercial pressures and imperatives are in tension with PSB objectives. Privatisation would simply push Channel 4 further down this path. In an era when this kind of content is readily available from commercial providers, Channel 4 should return to its core mission.

Channel 4 is already pursuing a digital first strategy, and should be supported in pioneering cross-platform content which makes the most of the possibilities offered by digital technologies. It is also ideally placed to experiment with more participatory relationships with audiences, including commissioning processes with greater involvement from members of the public. We also believe the Channel needs new public obligations to ensure that it prioritises local production houses over the super-indies (see question 5).

##### 5. *Creative economy impact*

*Should the government remove the publisher-broadcaster restriction to increase Channel 4's ability to diversify its commercial revenue streams? Please provide supporting evidence.*

Channel 4 is currently financially healthy, and it is already implementing its Future4 strategy to secure additional commercial revenue streams. Its unique structure as a publisher-broadcaster has had huge benefits for the film and television sector, and this would be undermined if Channel 4 began producing its own programmes. The government's priority should be to ensure that more commissioning spend goes to local producers rather than super-indies.

Channel 4's unique structure as a publisher-broadcaster has played an essential economic role in increasing investment in the film and television sector. Over its lifetime it has invested £12 billion in the independent production sector, and it makes an economic contribution of £992 million per year to the UK economy, supporting 10,600 jobs in its supply chain.<sup>14</sup>

Channel 4 does not retain intellectual property (IP) rights on the programmes it commissions. Although this means that it cannot generate additional income through selling commissioned content internationally, this is beneficial to the UK's film and television sectors, in creating an important secondary source of income for production companies. The main barrier to this practice being more economically beneficial is not the publisher-broadcaster model, but the domination of the production sector by super-indies. While data for Channel 4's spend is not available, we know that across the television sector super-indies account for around 38% of all revenues, despite making up only 1% of the industry.<sup>15</sup> We also know that the number of independent production houses commissioned by Channel 4 has declined 33% over the last decade, from 239 in 2010 to 161 in 2020.<sup>16</sup> This concentration of spending means that the wider industry is not benefiting as much as it should from Channel 4's being a publisher-broadcaster. The solution is not to change the Channel's structure, but to impose new obligations to prioritise commissioning from local production companies. Higher standards should also be including in commissioning contracts to ensure that

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<sup>14</sup> EY, [Channel 4's contribution to the UK](#), April 2021, p. 1-2

<sup>15</sup> Ofcom, [Small Screen: Big Debate Consultation – Annex 7. The role of PSBs in the UK TV production sector](#), 8 December 2020, p. 9

<sup>16</sup> [Channel Four Television Corporation Report and Financial Statements 2010](#), p. 154; [Channel Four Annual Report 2020](#), p. 25

they do not rely on exploitative labour practices,<sup>17</sup> and to ensure diversity in recruitment and promotion.

Although Channel 4's finances are currently healthy, in the longer term it will likely need additional sources of income. Plans for this are already underway in its Future4 strategy, which prioritises digital growth over linear ratings. The strategy aims to double All 4 Viewing by 2025, to increase digital advertising to at least 30% of total revenue by 2025, and for non-advertising income to be at least 10% of total by 2025. The government has provided no evidence that a private owner would be better placed to deliver this than the current ownership model, especially given the additional financial pressures if it has to generate profits for shareholders.

As discussed in our answer to question 2, we believe that the best long-term solution to funding the Channel is to move away from direct sales of advertising, and towards another former public funding such as an advertising levy. This would create another advertising free platform alongside the BBC, and allow Channel 4 to focus on public rather than commercial goals.

## 6. *Other questions*

*With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on:*

### *a. overall audience experience?*

We believe the impacts on audience experience will be strongly negative. Privatisation will lead to the content being less interesting and engaging, with more reliance on generic, low-cost content such as reality TV. Audiences will be less well informed as Channel 4 will be less likely to invest in news and current affairs, which are amongst the most expensive programmes to produce. A commercial owner which is trying to maximise audiences (in order to maximise revenues) will be less concerned with serving minority audiences, and will invest less in innovative content, including content from new untested voices and small production companies. This will mean that communities across the UK will be less well represented, and that there will be less diversity of content available for viewers.

### *b. the Channel 4 Television Corporation itself?*

Channel 4 is regulated to provide content that fulfils its public mission. Privatisation would fundamentally change the corporation into a commercial enterprise aimed at making profits.

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<sup>17</sup> For example, Studio Lambert, an independent TV production company that makes Gogglebox for Channel 4 (among other programmes) was criticised by staff earlier this year by workers for 'inhumane' working conditions on the show. Staff were allegedly "warned against disrupting production by being forced to self-quarantine." See Jim Waterson, "[Gogglebox staff claim toxic culture behind scenes of hit show](#)", *The Guardian*, 29 January 2021

Keeping the Channel 4 Television Corporation in public ownership helps to ensure it can focus on meeting its public service obligations.

*c. investment in the independent production sector?*

A commercial owner is likely to rely even more heavily on tried and tested TV formats, international dramas, and other generic content. If the buyer was US-based, they would commission more of Channel 4's content from the US, resulting in less being spent on UK production. It is also likely to further concentrate its spend with super-indies rather than local producers, because there is less commercial risk involved in commissioning from established companies. We believe this is the wrong direction of travel, and that Channel 4 should instead have new obligations to increase investment in SME production companies located throughout the UK.

*d. investment in the independent film sector?*

We believe the independent film sector in the UK does not receive sufficient support. As the acclaimed British director Michael Winterbottom has recently argued, one index of that fact is how infrequently some of the best British film-makers have been able to make films in the UK.<sup>18</sup> Channel 4 spends more on British film than any other UK broadcaster, and Film4 has been a huge global success – its films have collectively won 37 Academy Awards. Film 4's current commissioning priorities are 'stories with contemporary relevance, based around British-led talent or content' and 'distinctive voices and work that aims to push the boundaries, within any given film genre'.<sup>19</sup> As with general TV commissioning, a commercial owner is likely to orient its film commissioning towards generic content aimed at international audiences rather than innovative, British-led filmmaking. This concern has been expressed by many in the industry.<sup>20</sup>

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<sup>18</sup> "Many film-makers who have started making films in Britain have subsequently looked to the US – think of Andrea Arnold, Andrew Haigh, Christopher Nolan or Edgar Wright. Or they find it easier to work in television, commercials or theatre, or they decide to make studio films. For an individual director this may be a choice they are happy to make. But it leaves British independent cinema sadly depleted. Think of the films that we have missed out on. If the environment allowed, or encouraged, British film-makers who have already been successful...to carry on making the films they want to make here in Britain, they wouldn't need to be as productive as Bergman or Godard in order to transform British cinema. ... Maybe it is the volume of this dark matter – the number of the unmade films – that explains why, as you look at British independent cinema, it resembles an abandoned building site, with roads mapped out, foundations dug, random piles of bricks here and there, bags of cement and sand lying around unused, and only an occasional building standing ... unoccupied, looking lonely in the surrounding chaotic landscape." ["Michael Winterbottom: why British independent cinema resembles an abandoned building site"](#), *The Guardian*, 2 September 2021

<sup>19</sup> Channel 4, ["Film4 FAQs"](#)

<sup>20</sup> For a collection of views from figures working in the UK film industry, see Geoffrey Macnab, ["Incredibly short-sighted": UK industry reacts to possible privatisation of Film4"](#), *Screen*, 21 July 2021. "Most of the people to whom Screen has spoken expressed fears a private owner would not maintain the commitment to creative risk-taking and support of new talent that has defined the film division - along with its broadcaster parent - since its launch in the early 1980s. It is these values, they said, that have helped to craft the present UK film ecosystem and celebrate the "British cultural voice" as Working Title Films' Tim Bevan puts it."

*e. the TV advertising market?*

A possible buyer for Channel 4 would be another UK broadcaster – either ITV or Channel 5. This would reduce the number of sales houses from three to two, reducing competition and allowing for greater monopolies on TV advertising sales. The ISBA (which represents UK advertisers) is opposed to the privatisation of Channel 4, particularly highlighting its role in supporting the UK’s creative sector which local advertising production depends upon. However, privatisation would also shut down the options outlined in response to question 2 for maintaining high quality and innovative content through a different funding mechanism, such as a levy on online advertising.

*f. investment in the creative industries sector more widely?*

Privatisation would be likely to lead to more homogenous content, and less risk-taking and innovation. Commissioning is likely to become further concentrated in super-indies rather than SME production companies and emerging voices. A private owner would be likely to try and change the publisher-broadcaster model, reducing investment in the creative industries.

The Media Reform Coalition supports proposals in the Puttnam report on public service television to create new sources of funding which could underpin collaborations between broadcasters and public institutions such as the National Theatre or the Tate Gallery.<sup>21</sup> Such collaborations would only become more complex and costly were Channel 4 to be privatised.

*g. competition between Channel 4 and other PSB and non-PSB channels?*

The PSB system was created on the principle that channels should compete on the basis of quality, rather than revenue or the maximising of audiences. Channel 4 was established with a distinctive remit to provide content for groups that were not well served by the BBC and ITV, as well as to invest in the independent production sector as a publisher-broadcaster. As all our PSB channels have become more centralised and commercialised, Channel 4’s distinctiveness has been eroded. Privatisation will only increase this negative competition based on commercial criteria, rather than supporting the PSB system as a whole.

In terms of non-PSB channels, competition is largely genre specific. For news and current affairs (where the main competitor is Sky), privatisation would almost certainly result in a reduction of investment. In terms of drama, Channel 4’s competition increasingly comes from streaming services, especially as both seek to appeal to younger audiences. Here Channel 4 will inevitably be outspent, and privatisation will not solve this. However, as the blockbuster success of *It’s a Sin* demonstrated, where Channel 4 focuses on providing high quality content tailored for UK audiences – the content that streaming services will not provide – it is currently able to compete. Privatisation would be likely to disincentivise investment in this kind of competitive content.

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<sup>21</sup> [\*A Future for Public Service Television: Content and Platforms in a Digital World\*](#), 2016

*b. the regions and nations of the UK?*

Channel 4 has a particular role to play in serving the regions and devolved nations of the UK, both by commissioning content from independent producers around the country, and by fulfilling its remit to serve minority audiences that would not be served by private markets. The major barriers to Channel 4 doing this more successfully are commercial pressures to maximise audiences and the majority of production spend going to a handful of super-indies. Privatisation will increase commercial pressures, and make it harder to impose new obligations to procure from SME production companies.