



## **Response to House of Lords Communications and Digital Select Committee Call for Evidence on the future of Channel 4**

**September 2021**

### **About TAC**

1. TAC (Teledwyr Annibynnol Cymru) is the trade association of the independent television production sector in Wales. The sector is a highly important element of the creative industries in Wales, whose collective turnover is estimated at £3.5bn,<sup>1</sup> providing economic, social and cultural benefits through supplying creative content. There are over 50 companies in the sector, ranging from sole traders to some of the leading players in the UK production industry. TAC members produce content for the BBC, ITV, Channel 4, Channel 5 and Sky as well as other commercial broadcasters. They produce almost all the original television and online media content for the Welsh-language broadcaster S4C.

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

2. The current TV broadcasting landscape certainly presents challenges which have become ever more into focus over the last five years. Competition for viewers' attention has increased with the rise of the SVoD services, in addition to the growing digital content freely available on platforms like You Tube. Some public service broadcasters are finding it a challenge to attract younger viewers.
3. Succeeding in such an environment rests on a number of factors: access to high-quality compelling content; a distinctive identity in the marketplace; and availability and prominence on a wide range of platforms. Channel 4 already has the available content and a distinct proposition to audiences and as we detail below, its availability is not dependent on a move to private ownership.
4. Looking first at its content proposition, Channel 4 has enabled the development of a thriving UK independent production sector from which to commission its content. These range from larger companies producing a range of content to smaller players focusing on one or two genres. The sector is spread around the UK, including in Wales, where Channel 4 has recently increased the number of companies from which it commissions content.
5. Channel 4 also has a distinct identity shaped by its public service remit and its focus on work with new entrants to the production sector and new individual talent, which helps it to maintain a distinctive and contemporary output. In 2020 Channel 4 worked with 274 producers around the UK, of which 37 were new suppliers. The broadcaster is particularly committed to developing new talent and supporting new businesses. In recent years, it has developed several initiatives to strengthen this support such as its Growth Fund investment programme, its BAME-led indie accelerator scheme and

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<sup>1</sup> [The size and composition of the creative industries in Wales. CLWSTWR, May 2020, p11](#)

its Production Trainee Scheme aimed in particular to support individuals from backgrounds that are underserved and under-represented in the media industry.

6. Channel 4 is publicly owned but, with all of its revenues being commercially sourced, this comes at no cost to the taxpayer. With no private shareholders or owners, all of its revenue profits are reinvested into its content and services. Its publisher-broadcaster model, its requirement to appeal to particular audience demographic and to take risks as well as provide an hour of news in evening peak time, all ensure it remains distinctive and therefore offers a USP to audiences.
7. In terms of availability, Channel 4's core linear channel is available at number 4 on the digital terrestrial EPG as well as the UK-based SVoD services, and its portfolio of other channels is also visible in the top channels listed on the EPG. It provides catch-up services via its All4 platform – the largest free to air streaming service in the UK.
8. Going forward, however, it needs to secure prominence on all streaming services available in the UK. We understand that Ofcom and the Government are currently working to implement this as part of securing additional prominence for UK public service broadcasters. Given that this has yet to happen, it is not the right time to be making any change in the ownership structure of Channel 4.
9. Channel 4 already has a successful strategy of forming partnerships with private media platforms including Sky, Netflix, TikTok and Snapchat. This enables it to reach out and ensure its content has greater impact. It also showed its ability to move quickly to secure key sports rights on more than one occasion. Two examples from 2021 are: in February, it acquired the rights to broadcast the Test Cricket series between India and England, and more recently, it secured a deal with Amazon Prime to broadcast free-to-air the US Open tennis final featuring Britain's Emma Raducanu, which at its peak attracted 9.2m viewers. We believe these examples show how a privatisation would not be introducing any new advantage in terms of such strategic partnerships and ability to secure key rights at short notice. In addition Channel 4 gave up advertising revenue during the ad-free coverage, which a privately-owned broadcaster would be extremely reluctant to do.
10. Providing therefore that sufficient prominence is gained, which can happen whilst remaining in public ownership, Channel 4 is likely to be able to overcome any known challenges.

**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?**

11. We cannot see any benefits of privatising Channel 4. Being in private ownership would fundamentally change the character of Channel 4 as an organisation. Rather than being purely about delivering a public service remit – albeit while needing to be commercially profitable – it would instead be focussed on a profit motive. This would fundamentally alter its approach to commissioning and its overall ethos.
12. A focus on profit motive could also impede Channel 4's commitment to commissioning new content, restrict its range of genres and, in some cases, lead to reducing some programme budgets. This would have a highly negative effect on audiences and on the production sector. It should be allowed to focus on fulfilling its strategy as it also recovers from the impact of the coronavirus pandemic.
13. Channel 4's 'Future4' strategy aims to double All4 viewing plus deliver 30% of total revenues from digital advertising and 10% from non-advertising. This strategy is already showing positive results and it would be beneficial for Channel 4 to continue to work on accomplishing those targets without

the distraction of a pending privatisation, especially having just been through a significant reorganisation as part of its '4 All the UK' strategy.<sup>2</sup>

14. Private ownership hasn't improved the position of Channel 5. The average monthly reach of Channel 4's TV portfolio is 73%, much higher than Channel 5's reach which stands at 61.4%<sup>3</sup>, despite Channel 5 having been bought by Viacom in 2014. Despite six years of ownership by a large international media company, Channel 5 still has significantly less reach than Channel 4.
15. We also believe audiences' experience would be the poorer for a privatisation. Channel 4's programme decisions are characterised by its PSB remit and purpose, which is reflected in the diverse contributors cast for programmes such as *It's a Sin*, *24 Hours in A&E*, *First Dates* and *Gogglebox*. And Channel 4's *Black to Front* programming was a positive statement showing the range of diverse talent available. In general more diversity is more inclusive to audiences, showing that PSB is for them. Without this PSB ethos we therefore believe audiences would lose a unique broadcaster in favour of one which veered towards the mainstream in order to chase higher ratings.
16. A sale of Channel 4 could also reduce the cultural identity of its output as a more profit-driven motive aimed content towards more international audiences, especially as any likely buyer would be an international media firm. An Enders Analysis report<sup>4</sup> into the effects of more overseas investment in programming gave the example of the successful drama *Black Mirror* which, once it transferred from Channel 4 to Netflix, featured fewer UK cultural references. Overall, Enders determined that *"while this [international] investment is welcome, our analysis shows that the output is predominantly less 'British' than that commissioned directly by local broadcasters. Distinctive and diverse British cultural touchpoints are created or perpetuated by television. Current trends suggest a dilution of this, a globalisation of local content, and perhaps less relevance to British viewers."*
17. Channel 4 has been running an hour-long news programme in peak time since its inception, without once requesting that this should be reduced. In contrast Channel 5 recently argued that it should have fewer obligations to provide news output in peak time on its main channel. Ofcom has proposed to accept Channel 5's proposition for the removal of the requirement to include at least one news programme in the mid-evening and a reduction to the requirement to include in each calendar year at least 120 hours of news programme between 18:00 and 22:30 (i.e. peak time) to 20 hours<sup>5</sup>. This shows a privately-owned PSB reducing its commitment to provide PSB news content by over 83% during the times when audiences are most likely to be watching.
18. In our opinion, there is no doubt that any private owner of Channel 4 would similarly be lobbying to reduce its PSB remit in order to increase audience share and raise greater ad revenues, which would be passed on to shareholders rather than reinvested in the UK creative economy.
19. Whether or not this was the case, it should be noted that it is very difficult to be sufficiently prescriptive in any written remit in order to compensate for a less public-service driven culture. So

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<sup>2</sup> <https://www.channel4.com/corporate/4-all-uk-working-across-uk>

<sup>3</sup> [Emerging Better Together: Channel Four Television Corporation Report and Financial Statements 2020. Channel4, Jul 2021, p86](#)

<sup>4</sup> [Outsourcing culture: When British shows aren't 'British'. Enders Analysis, Mar 2021](#)

<sup>5</sup> [Request for change of licence conditions relating to the provision of news output on Channel 5: Our assessment of the request. Ofcom, 30 June 2021, p14](#)

day-to-day commissioning decisions would inevitably be distorted by a new profit-drive priority even if ostensibly staying within the current remit.

20. A sale of Channel 4 would also have negative impacts on the production sector. The likely weakening of its remit which would result from a selling off of Channel 4 would, in our view, reduce investment in the overall UK sector in favour of a combination of more overseas acquisitions and a much greater focus on larger players in the market. This would adversely affect the sector's ability to renew itself, in the long term harming its vibrance and competitiveness which has given it such an edge globally.
21. The effects on the production sector in the Nations and Regions could well be more acute if, as would be expected, a privatised Channel 4 favoured larger South-East based production companies. The EY report states that: *"If the new private owner of Channel 4 reduces spend in the Nations and Regions to the level of Channel 4's quota (35%), we estimate that Channel 4's contribution to GVA through its supply chain in the Nations and Regions could reduce by 43% (£1.2bn) over a ten-year period. Similarly, we estimate that jobs supported by Channel 4 in the Nations and Regions each year (both directly and in its supply chain) would reduce by 60% (2,300 fewer jobs supported each year) compared to a scenario where Channel 4 is not privatised."*
22. The Committee will no doubt be aware of the strength of concern felt in the production sector regarding the potential selling off of Channel 4. *Broadcast* magazine took the extraordinary step of setting up a 'Not4Sale' campaign, which has well over 160 signatories from the UK production sector, including Welsh companies, as well as organisations such as TAC, Bectu, NUJ, Women in Film & TV, Directors UK, Producers' Guild of Great Britain and Writers' Guild of Great Britain.
23. Reducing out-of-London spend would serve to exacerbate effects of the pandemic on the production sector. We note that O&O's latest survey of the UK TV production sector shows that total UK TV production sector revenues fell by £450m during the Covid-19 pandemic, with the biggest reduction unsurprisingly coming from the drop in original commissions.<sup>6</sup>
24. The recent 3Vision report<sup>7</sup> on the impact of the pandemic on the UK TV industry states that the BBC and Channel 4 were the two broadcasters which continued to commission from outside London during the pandemic. The report also stated that *"unsurprisingly production companies operating on smaller budgets are far more concerned about their levels of cash reserves"*. Clearly, therefore, the types of smaller company with which Channel 4 often works suffered particular significant effects and a reduction in commissioning resulting from a privatisation would exacerbate this.
25. Channel 4's training programmes would also be at risk, including its flagship Production Training Scheme, which has been refocussed to be 100% Nations and Regions and already placed trainees with Welsh companies Bad Wolf, Yeti and Chwarel. Also its Factual Fast Track scheme is supporting progression and addressing skills gaps to develop Executive Producers in the factual genre in the Welsh sector. Following the success of the first round in 2019, Channel 4 has agreed with BBC Wales, S4C and Creative Wales to support another Welsh cohort of six people, currently being recruited.
26. Channel 4's 4Skills programme is investing £5m to reach 15,000 young people annually with training and development initiatives, beginning in 2022. It is also planning to launch a new digital academy, including paid three-month training and work placements for young people from lower socio-economic backgrounds. Furthermore, Channel 4 has a new pan-schools engagement programme, plus

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<sup>6</sup> [UK TV Production Survey – Financial Census 2021. O&O for Pact. Sep 2021](#)

<sup>7</sup> [COVID Long-Term Impact Study. 3Vision on behalf of Pact. Aug 2021](#)

it is providing new on and off-screen training for people with disabilities in advance of the Paris Paralympic Games in 2024. All of these feed into Channel 4's ability to remain distinctive. We question whether any of these initiatives would remain under a privately-owned Channel 4.

27. The advertising market could also be adversely affected by a privatisation. If Channel 4 had a reduced remit and distinctiveness, it would lead to a convergence of audience with the other commercial PSBs. This would remove a key audience demographic for certain advertisers who would move their investment into other media platforms. Therefore, there is a danger that the overall advertising spend in UK PSB could fall. The Incorporated Society of British Advertisers (ISBA) has raised concerns around this issue: *"C4's unique remit provides advertisers with highly valued, younger and diverse audiences, at scale and in quality environments, at a time when these audiences are becoming increasingly hard to reach through linear TV ... No new owner, with a purely commercial incentive, could be guaranteed to maintain all the facets of the current offering, which contributes so significantly to media plurality and diversity in the UK."*<sup>8</sup>
28. In terms of its long-term viability, Channel 4's finances are healthy. Channel 4's recent Annual Report<sup>9</sup> showed clearly that it has recovered well from the pressures of the coronavirus pandemic: record digital advertising revenue of £161m; the highest-ever programme streaming views (1.25m, an increase of 26%); 24m viewers registered on All4, including 80% of all 16-24 year-olds and 16-34 year olds in the UK (a statistic that sets it apart from its PSB competitors); a £74m pre-tax surplus; and £201m cash reserves.
29. Channel 4 is not entirely dependent on advertising revenue. It also raises significant additional revenue from sources such as its 4Studios unit, partnership deals and its share of rights income from content. This non-advertising revenue totalled £84m in 2020, an increase of nine per cent.

**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?**

30. One of the key benefits would be to maintain Channel 4's commitment to working with a variety of production companies, many medium sized or small companies, based all around the UK. Channel 4 has just undergone a process of transforming its structure and commissioning in order to ensure that voices around the UK are heard more on its services than ever before. Provided that equal priority is given to indigenous companies in the Nations and Regions (as opposed to sub-offices of London-based companies), using more companies based throughout the UK will provide greater benefits to local creative economies and further the levelling-up agenda.
31. Channel 4's annual report for 2020 states that 47% of its spend on first-run originations was on the Nations and Regions – the highest ever level of investment outside of London by the broadcaster. Channel 4 has spent some £77m in Wales over the last ten years and is committed to a greater spend going forward outside London as a result of the '4 All the UK' strategy. Producers based in Wales are also likely to benefit from Channel 4 devolving commissioning powers to its new Bristol hub. Analysis shows that in 2019 Channel 4 contributed £20m to GVA in Wales and supported 200 jobs. This is expected to grow as a result of the increased focus on investment in the Nations.

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<sup>8</sup> [Bowler, H, Farber A. Major advertising body pans C4 privatisation Broadcast, 31 Jul 2021](#)

<sup>9</sup> [Emerging Better Together: Channel Four Television Corporation Report and Financial Statements 2020. Channel 4, July 2021](#)

32. Channel 4's various funds to help emerging companies have been utilised in Wales to good effect. The Emerging Indie Fund has benefited companies including Chwarel (Criccieth, North Wales). The Fund replaced the Alpha Fund which invested in many Welsh production companies over the years, supporting slate development and growth. The Indie Accelerator provides development funding and bespoke support to production companies with Black, Asian and minority ethnic leadership, including Cardiff Productions. And the Indie Growth Fund has invested in award-winning Welsh production company Yeti, the first investment in a business based in Wales.
33. In contrast, where the type of media organisation which might purchase Channel 4 has already invested in UK production, this has tended to be in South-east England. Netflix's production hub is in Surrey's Shepperton Studios and Disney's has a long-term lease for Pinewood Studios near London.

**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?**

34. Channel 4's strength lies in its unique remit and also its publisher-broadcaster model, which ensures that the vast majority of Channel 4's content spend goes on original UK programming from the vibrant production sector. This, combined with the protections for IP rights in the regulated Terms of Trade, means Channel 4 is a real enabler for the sector and a creator of growth in the creative industries. We are concerned that a privately owned company would not be as willing for producers to share in net receipts/have relationships with distribution companies and similarly to benefit from other content distribution arrangements. This could undermine the profitability and therefore the competitiveness of the UK sector, at a time when it is more important than ever for it to be thriving and able to command international interest.
35. Removing Channel 4's publisher-broadcaster remit would reduce opportunities to new entrants to the market, which in turn would have a direct impact on the vibrancy and competitive nature of the sector which makes it so strong and successful. We note that EY's report on the potential impact of privatisation states that 66% of the content on ITV's main channel is sourced in-house.<sup>10</sup> If removing Channel 4's publisher-broadcaster model resulted in a similar pattern then the results would be profound, with EY estimating that the present value of Channel 4's supply chain contribution to GVA over a ten-year period could be 29% (or £2.1bn) lower than Channel 4's current model.
36. This would be felt particularly in the sector outside London, with EY's analysis suggesting that the present value of GVA generated by Channel 4 in the Nations and Regions in its supply chain over a ten-year period could be 37% lower.
37. It is highly notable that, working with the production sector, Channel 4 has already devised ways of extracting greater returns on investment whilst remaining a publisher-broadcaster. Its Global Format Fund<sup>11</sup> aims to give rise to new UK original formats which will benefit Channel 4 and production companies in terms of creating new successful shows in the UK and internationally. Channel 4 is ring-fencing £30 million of incremental content spend to be invested in the Global Format Fund over 2021 and 2022. Net receipts from producers' exploitation of Global Format Fund-commissioned content will be shared 50/50 between Channel 4 and the producer. This would seem to negate the need for a privatisation.

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<sup>10</sup> [Assessing the impact of a change of ownership of Channel 4: An economic, social and cultural impact assessment of the impact of privatisation. EY, Sep 2021](#)

<sup>11</sup> <https://www.channel4.com/commissioning/global-format-fund>