Annex 1

Channel 4's impact on the UK's International Competitiveness and Global Profile - Overview

Pact commissioned Oliver & Ohlbaum Associates to assess the potential impact of a Channel 4 ownership change, with an emphasis on the implications for the UK's international competitiveness and global profile. The report is a distinct piece of research and interrelates to the other annexes that Pact has provided to Government as a supplement to its response to the Government's consultation on a potential change of ownership of Channel 4 Television Corporation. The O&O report has five sections which takes a forward-looking approach and outlines the potential detriment in terms of loss to the sector if a change of ownership results in a change to its publisher broadcaster status. The report shows that:

- Channel 4 provided an estimated £940 million of value to the independent production sector in 2019 – through commissions, secondary sales of Channel 4 programmes, and through its contribution to the 'creative economy' – i.e. its value to production companies, actors and other talent that are a success due to Channel 4's initial support
- If a new owner of Channel 4 pursued a strategy of moving productions in-house and took fewer creative risks, this could cost the independent production sector up to £3.7 billion within ten years
- The full impact would be even greater – as a weakened independent production sector would have a significant knock-on impact on the UK's wider audiovisual ecosystem over time

Key findings:

- A change in ownership would likely result in an erosion of Channel 4's remit, especially the qualitative public purposes including innovation. This could happen through the terms of sale or over time as a change in ownership would create commercial incentives to seek to reduce regulation

- This would result in a cut and change in investment in independent production over time, both directly from Channel 4 and over the longer term from all broadcasters as the overall system is weakened. The risk is that UK's global competitiveness would then be diminished, with the UK's surviving independents shifting the focus of their competition to large international markets like the US and in Asia.

- In the first year after the sale, O&O estimate that c.£80 million of value would be lost in the independent production sector, largely driven by an initial push to move Continuing Drama, Entertainment and some types of Factual Entertainment programmes in-house. After three years, the cumulative impact is estimated as c.£400m, driven by reduced creative economy growth and further programmes brought in-house. In years five and ten, the cumulative impact is estimated at £1 billion and £3.7 billion, respectively – showing the significant impact of losing Channel 4's creative spur and reliable source of commissions for independents.

- The report shows more in-house production would not simply mean a transfer of the same IP from producers to broadcasters – it would come with a significant weakening of the UK audiovisual sector overall.

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September 2021

Channel 4's Impact on the UK's International Competitiveness and Global Profile

A report for Pact

prepared by Oliver & Ohlbaum Associates Ltd

O&O

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Summary

- Channel 4 provided an estimated £940 million of value to the independent production sector in 2019 – through commissions, secondary sales of Channel 4 programmes, and through its contribution to the 'creative economy' – i.e. its value to production companies, actors and other talent that are a success due to Channel 4's initial support
- If a new owner of Channel 4 pursued a strategy of moving productions in-house and took fewer creative risks, this could cost the independent production sector up to £3.7 billion within ten years
- The full impact would be even greater – as a weakened independent production sector would have a significant knock-on impact on the UK's wider audiovisual ecosystem over time

UK television is a global success story that punches well above its weight, driven largely by a thriving independent production sector, which delivers creativity and innovation in abundance. It is highly dynamic, with all sizes and specialisms of producer and a healthy cycle of start-ups, growth, consolidation and spin-offs, bringing fresh ideas, expertise and funding into the market, including to broadcaster studios. It helps drive the UK audiovisual sector's position as a leader in programmes, formats, and IP and more broadly as a global hub for creative talent, skills and business ambition.

By 2019 the creative industries contributed £115.9 billion to the UK economy. This was up 7.7 per cent on the previous year, making growth in the sector more than five times larger than growth across the UK economy as a whole. The audiovisual sector was a key contributor to this figure at £26.2 billion, up 12.7 per cent on 2018.[1] TV exports are growing, delivering £1.48 billion in 2019/2020 and promoting the UK on a global stage.[2] Given their strength and potential for further growth, the ongoing competitiveness of the UK TV sector and wider creative industries is vital to the Covid-19 economic recovery, the Government's 'levelling up' agenda and Britain's global trade ambitions.

The growth of the UK independent production sector has its foundations on a combination of flexible, low cost-regulatory interventions and the UK's public service broadcasting (PSB) commissioning system. Since its creation by Margaret Thatcher's Conservative Government, Channel 4 has been at the centre of this system and is the catalyst that kicked-off the growth of the independent production sector in the first place.

Today, Channel 4 is more important than ever to maintaining the global competitiveness of the independent production sector and wider TV ecosystem. Its unique model as a publicly owned, commercially funded publisher-broadcaster means it has a differentiated relationship with independent producers and an important role in maintaining the balance between public and commercial PSBs. Channel 4's remit goes much further that the commercially owned PSBs ITV and Channel 5. It requires them to provide high quality and distinctive programming that demonstrates innovation, experiment and creativity; appeals to the tastes and interests of a culturally diverse society; and supports the development of people with creative talent.

The consultation launched by the Department of Digital, Culture, Media and Sport (DCMS) is looking at Channel 4's ownership model, remit and obligations, including consideration of removing Channel 4's publisher-broadcaster status. DCMS suggests that an ownership change will enable it to thrive for another four decades at the heart of British broadcasting, contribute to the social and cultural life of UK audiences and 'supercharge the creative industries', by driving economic growth, unleashing investment, creating jobs and building on our international

[1] DCMS, *Sectors Economic Estimates*, 2019
[2] Pact, *UK TV Exports Report*, 2019-20

competitiveness'.[3] This report discusses the potential impact of a Channel 4 ownership change, with an emphasis on the implications for the UK's international competitiveness and global profile. We show that:

- **Channel 4 is the cornerstone of the UK's world beating production sector.** Margaret Thatcher's Conservative Government recognised that Channel 4 was needed to stimulate an entrepreneurial independent production sector with a free market ethos, to provide competition to the vertically integrated BBC and ITV studios, and audience choice in innovative UK content. This is more relevant than ever. Channel 4 is fully invested in supporting and nurturing independent production companies which, with Channel 4's support, already deliver the outcomes DCMS is looking to achieve with a change in Channel 4 ownership – access to capital, investing in new technology and programming, accessing international markets, serving audiences as the market evolves.

- **With Channel 4's support, terms of trade have enabled the independent production sector to flourish and to access finance and international markets.** Terms of trade create incentives for independent producers to develop shows that serve UK PSB audiences and that can also sell in the UK and internationally. This has resulted in global success, with UK TV exports growing almost three times faster than French TV exports from 2003 to 2016. Channel 4 has contributed £462 million to international secondary sales by independents across 2010 to 2019, 25 per cent of the total (£1.817 billion).[4,5] Channel 4 plays an important role in maintaining terms of trade, as it relies on a healthy and thriving independent production sector to produce content for its channels. This position is differentiated from ITV and Channel 5, who have commercial incentives to favour their own studios.

- **Due to Channel 4's unique remit, it plays a distinct role in promoting growth and innovation across the independent production sector.** It has a unique model – within the UK system and worldwide – as a publicly owned and commercially funded broadcaster. It is fully invested in supporting and nurturing independent production companies who, with Channel 4's support, already deliver the outcomes DCMS is looking to achieve with a change in Channel 4 ownership – access to capital, investing in new technology and programming, accessing international markets, serving audiences as the market evolves. Public ownership creates the incentives for Channel 4 to deliver public purposes, including innovation and experimentation. Even if they were left in the remit, such qualitative objectives are unlikely to be enforceable in the end with a change in ownership. In contrast, the commercially owned and commercially funded PSBs are, logically, profit-maximising organisations that accept some quantitative quotas in exchange for quantifiable benefits – and remain free to hand their PSB licence back.

- **Channel 4 is a sustainable component of a modern PSB system**. The decline of PSBs and growth of SVOD services is regularly overstated. Broadcast TV still accounts for the majority of viewing across all audiences; it is viewed six times more than SVOD services on average. PSBs are the primary source of income for the independent production sector, contributing an estimated 54 per cent of total sector revenues in 2018. TV advertising is resilient and offers advertisers a differentiated proposition to internet advertising, providing mainstream, mass audience exposure in a short timeframe and allowing brands to rapidly scale. Channel 4 and other UK broadcasters are innovating in ad tech across linear channels and BVOD, including in industry partnerships.

[3] UK Government, *Build Back Better: Our Plan for Growth*, quoted in DCMS, *Consultation on a potential change of ownership of Channel 4 Television Corporation*, 2021

[4] Pact, *UK Television Production Survey: Financial Census*, 2020

[5] Channel 4, *Annual Report*, 2010-2019

- **SVODs cannot replace public service broadcasters in commissioning independent producers**. Even if SVODs increase commissioning spend in the future, they do not play the same role in the market as PSBs. SVODs often retain all IP from their commissions using producers on a 'work for hire' basis, generally need to commission for global success, focus on a narrower range of genres, and have fewer incentives to take creative risks (e.g. *The Circle, Black Mirror* were acquired by Netflix after being commissioned by Channel 4).

- **The consultation reaches a hasty conclusion on the future of Channel 4.** Channel 4 has a robust plan to diversify and future proof its revenue, shows no signs of struggling to respond to market dynamics, and is forecast to generate over £1 billion in revenue in 2021 for the first time**.**

- **Channel 4 overcomes challenges and always comes out stronger**. Throughout its 40-year history, Channel 4 has successfully navigated three advertising recessions and huge increases in competition from the advent of satellite channels and Freeview. Adapting to the competition provided by SVODs is no different – in fact, Channel 4 was the first broadcaster to launch a VOD service in the UK and now has the biggest free site, with the highest youth reach among the PSBs.

- **Without Channel 4, the UK audiovisual sector could face stagnation in a globalising media market.** Changing Channel 4's ownership would likely result in an erosion of its remit, especially the qualitative public purposes including innovation. This could happen through the terms of sale or over time as a change in ownership would create commercial incentives to seek to reduce regulation. This would result in a cut and change in investment in independent production over time, both directly from Channel 4 and over the longer term from all broadcasters as the overall system is weakened. The risk is that UK's global competitiveness would then be diminished, with the UK's surviving independents shifting the focus of their competition to large international markets like the US and in Asia.

- **Consolidation involving major national broadcasters raises important questions about competition and media plurality and, in any case, is not appropriate for Channel 4**. The case for merging major national broadcasters is far from proven considering media plurality and competition across rights, distribution and advertising markets. In any case, Channel 4 is completely different from commercial broadcasters like TF1 and M6 (which propose to merge in France) – it exists to deliver public value to audiences by driving innovation and creativity in the independent production sector and wider TV ecosystem rather than profit maximisation.

In fact, we show that Channel 4 can make UK TV fighting fit for the future, at zero cost to the UK taxpayer. Channel 4 under its current model is an integral component of the UK TV ecosystem, and ideally placed to drive the UK's global competitiveness, with benefits across the UK. These examples are just an indication of what more Channel 4 can deliver for the UK, given the chance:

- **Channel 4's role as a 'sandbox' for independent production can drive innovation, R&D and experimentation.** Channel 4's ability to take greater risks than commercially owned PSBs drives innovation in the independent production sector. This results in a greater variety of programmes – including those promoting underrepresented voices (e.g. *It's a Sin, The Undateables*), experimentation with new technologies and formats (e.g. *The Circle, Gogglebox*), and providing a platform for emerging talent from across the UK (e.g. Michaela Coel in *Chewing Gum*). When sold internationally, these programmes promote the UK as global leader that is innovative and forward looking.

- **Channel 4 can be used to deliver economic growth in the audiovisual sector, allowing it to build back better.** To support recovery from the pandemic, the UK Government has announced funding for the UK creative industries through various means that totals over £2 billion. Whilst this must be paid for with public funds, Channel 4 delivers nearly £1 billion to the UK economy every year and supports over 10,000 jobs – all at zero cost to the taxpayer.

- **Channel 4 can push levelling up, driving growth in the UK's Nations and Regions.** The move of its headquarters to Leeds is forecast to deliver £1 billion and 1,200 jobs over 10 years and its voluntary made-out-of-London quota increase will provide up to an additional £250 million investment into regional production companies. Channel 4's regional focus produces distinctive content that reflects the rich variety of British culture and subcultures (e.g. *Derry Girls*) – when exported to foreign markets, this shows the strength and diversity of the UK outside of London to the rest of the world.

- **Channel 4 can enhance the UK's global appeal and international soft power.** Channel 4 programmes have been sold in territories all over the world (e.g. *The Money Drop*, 55 territories; *Gogglebox*, 38 territories, worth over £8 million; *First Dates*, 22 territories; and *Derry Girls*, over 80 territories) – promoting the UK as a modern, forward looking and vibrant nation. Channel 4 supports more small production companies than any other broadcaster, supporting the Department for International Trade's goal for high-potential SMEs to export and grow into international markets. It also provides a platform for up-and-coming actors, writers and directors from across the UK who go on to achieve international success (e.g. Daniel Kaluuya, Riz Ahmad, Olivia Colman and Sacha Baron Cohen – who were all nominated for acting Oscars in 2021).

In conclusion, Channel 4 is best placed to deliver the outcomes DCMS is looking to achieve, with its current incentives and remit: stimulating innovation in production and related technologies, driving economic growth, skilled jobs and international exports, and serving audiences with diverse and creatively rich content. The continued global success of UK TV production is conditional on the current regulatory system, supported by Channel 4, remaining intact.

1 Introduction

The Department for Digital, Culture, Media and Sport (DCMS) recently published a Consultation on a potential change of ownership of Channel 4 Television Corporation. It is looking for views and evidence on: whether there are challenges in the current TV broadcasting market that present barriers to a sustainable Channel 4 in public ownership; Channel 4's 'social public service value' through levelling up the regions and Nations of the UK and its overall remit and obligations; Channel 4's 'creative economy impact' considering its publisher-broadcaster status. DCMS also asks about the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership on a range of industry stakeholders and audiences, including investment in the UK's independent production sector. It assumes a continued PSB licence and remit.

Government's emphasis is firmly on the future - Channel 4's future sustainability and future role as part of the UK's public service broadcasting ecosystem, audiovisual sector and creative industries. Input will also feed into the Government's wider strategic review of public service broadcasting.

In terms of the stated public policy objectives for PSB and Channel 4, DCMS wants to see:

- The UK's public service broadcasters – both publicly and commercially funded – continue to be a vital part of the mixed audiovisual ecology, contributing important social, cultural and economic benefits
- Channel 4 thrive for another four decades and keep its place at the heart of British broadcasting
- Channel 4's unique role in UK broadcasting maintained and where possible enhanced, e.g. its success in delivering content that serves every corner of the country
- a Channel 4 that is relevant and contributes to the social and cultural life of UK audiences
- a Channel 4 that flourishes and contributes to the Government's wider plans to 'supercharge the creative industries, driving economic growth, unleashing investment, creating jobs and building on our international competitiveness'[6]

As regards its preferred option to facilitate a change of ownership of Channel 4, DCMS's stated aims are a Channel 4 that:

- serves audiences better in a fast-evolving media sector
- is in the best position to innovate and grow
- has access to capital and the ability to invest in new technology and programming
- is able to diversify its income and take advantage of strategic partnerships and access international markets
- commissions more content and provides more jobs, through private investment

Pact has commissioned this independent report from Oliver & Ohlbaum Associates (O&O) as a contribution to the debate. The report takes a forward-looking approach and focuses on Channel 4's future impact on the UK's international competitiveness and global profile. It covers the following parts:

- **Channel 4 is the cornerstone of the UK's world-beating independent production sector** – a discussion of Channel 4's role in the growth and continued success of UK independent production in the UK and abroad

[6] UK Government, *Build Back Better: Our Plan for Growth*, quoted in DCMS, *Consultation on a potential change of ownership of Channel 4 Television Corporation*, 2021

- **Changing Channel 4 risks a slow decline of the UK audiovisual sector** – a discussion of the potential jeopardy that could unfold if Channel 4's ownership is changed, with UK broadcasting and independent production declining and the UK's international competitiveness diminished

- **Channel 4 is a key lever to make UK TV fighting fit for the future, at zero cost to the UK taxpayer** – a discussion of how Channel 4 with its current remit and incentives is a vital mechanism to empower the UK audiovisual sector to adapt and thrive into the future, in line with the Government's policy ambitions of innovation, Build Back Better, Levelling Up and Global Britain

- **Changing Channel 4's ownership could cost the independent production sector up to £4 billion within ten years** – our illustrative estimate of the potential impact on the independent production sector

To inform this report we carried out a series of interviews with independent producers covering companies of all sizes, genre specialisms, and from different parts of the UK.

To support consideration of the market and audience trends noted by DCMS, data points refer to the five years 2015-2019, or to the year 2019. We have also captured 2020/2021 along with any considerations related to the Covid-19 pandemic, including the extent to which we see or may expect to see a bounce back to historic trends. This approach allows the reader to draw conclusions about market and audience trends since the previous governmental and parliamentary consideration of the ownership of Channel 4 in 2016/2017. Moreover, look at Channel 4's future sustainability and – above all – how it can deliver against the stated public policy objectives in the coming years with its current incentives and obligations, and under a changed ownership model.

About O&O

O&O is a leading independent advisor to the media, entertainment and sport sectors, with a focus on policy, strategy, and commercial issues. We have an in-depth understanding of the competitive dynamics of the UK's TV, radio, news and online sectors, having been a leading advisor to the European independent production sector for over two decades. O&O has worked for all the 'super-indies' and many other leading players, providing support for numerous transactions in the European production sector for both buy and sell side, as well as developing production strategies for major broadcast groups. O&O has supported Pact through the development of the UK terms of trade, conducted the annual Pact Census for over ten years, worked alongside Pact on the BBC's proposals to extend the exclusive BBC iPlayer window, and recently on Ofcom's 'Call for evidence: Public service broadcasters and the UK production sector'.

O&O has worked for Ofcom and the European Commission on assessments of the UK and European TV sector and the TV production sector, Ofcom in some capacity in its previous three PSB reviews, and DCMS on BBC distinctiveness and market impact as part of the last Charter Renewal process. O&O has also advised US and European content providers and sports bodies on the European Commission's proposals on geoblocking, and how the territorial nature of rights underpins investment in production and distribution in the UK and Europe.

Beyond its policy work, O&O has advised all the major UK commercial media players and many global media, entertainment, telecoms and tech groups on policy, strategy, commercial operations and acquisitions at a UK, European and global market level.

Channel 4 is the cornerstone of the UK’s world-beating independent production sector

2 Channel 4 is the cornerstone of the UK's world-beating independent production sector

In this part, we look at the growth of the UK's TV sector to become one of the most successful in the world, driven by a thriving independent production sector. We show how Channel 4 is a cornerstone of this success, due to its unique position in the PSB ecosystem. We conclude the section by interrogating DCMS's hypothesis that Channel 4 remaining under public ownership may struggle to stay competitive in the future due to changing market dynamics. This overstates the market changes. Channel 4 is sustainable, has a robust strategy to futureproof its revenue, and should be given the opportunity to prove itself.

2.1 The UK's audiovisual sector is a global success

Section Summary

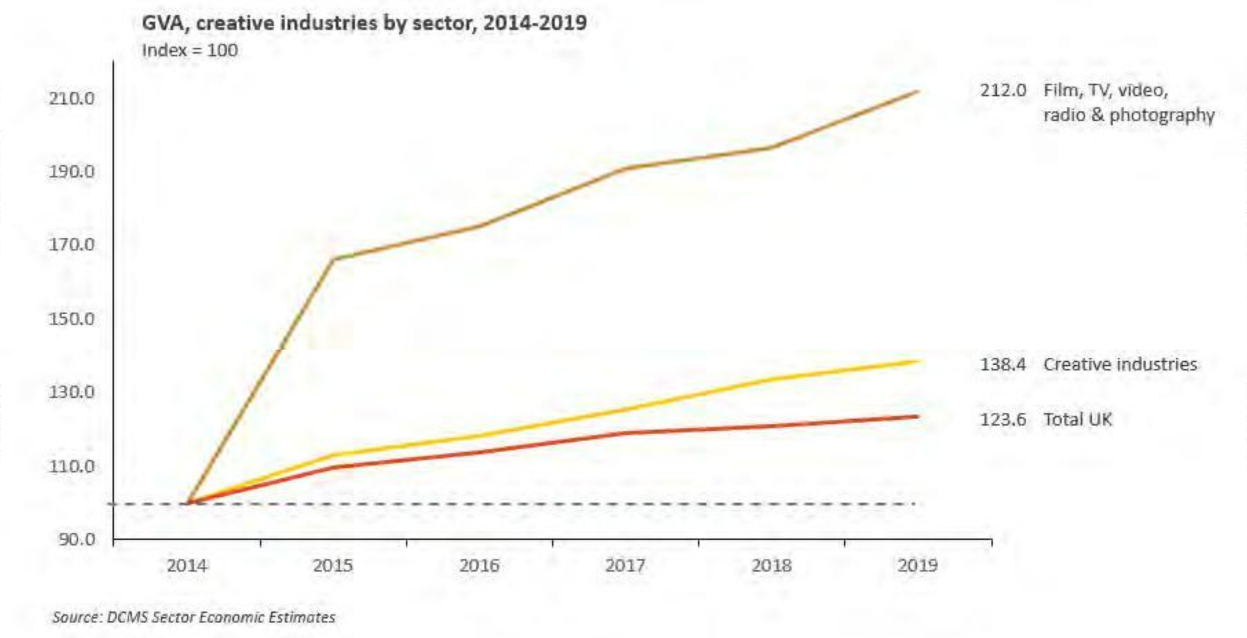
- The UK's audiovisual sector is flourishing, growing five times faster than the UK economy as a whole between 2014 and 2019
- The UK is one of the biggest TV exporters in the world, reaching £1.48 billion export revenue in 2019/2020

The UK's creative industries are vibrant and thriving – they have outperformed the UK economy in terms of both GVA and employment growth. The creative industries contributed a GVA of £115.9 billion to the UK economy in 2019, accounting for 5.9 per cent of overall UK GVA. The creative industries GVA has increased by 5.6 per cent between 2018 and 2019 and by 38.4 per cent between 2014 and 2019.[7] The 2018-2019 growth is 50 per cent higher than the GVA growth of the UK as a whole, which grew by 3.7 per cent over the same time period.[8] In 2019, the creative industries provided employment for 2.1 million people, an increase of 3.0 per cent from 2018 and a 34.5 per cent increase from 2011, more than three times the growth rate of employment in the UK overall (11.4 per cent).[9]

The audiovisual sector – defined by DCMS as 'Film, TV, video, radio and photography' – was the fastest growing subsector from 2018 to 2019, with a GVA increase of 12.1 per cent. As shown in Figure 1, the sector has grown 112 per cent between 2014 and 2019, which is almost three times the growth of the wider creative industries and almost five times the growth of the UK economy.

[7] DCMS, 'Gross Value Added', *Economic Estimates*, 2019
[8] Office for National Statistics, *'Gross Value Added (Average)'*, 2018-2019
[9] DCMS, 'Employment', *Sectors Economic Estimates,* 2019

Figure 1: Contribution to GDP by the creative industries by sector, 2014-2019



The strength of the UK's audiovisual sector supports the UK's global success and competitiveness. 2019/2020 was another record-breaking year for UK television exports, increasing 6 per cent year-on-year to a new high of £1.48 billion. Over the last five years, international revenues have boomed, increasing by 158 per cent.[10] The UK is the world's leading exporter of TV formats.

The UK creative industries and the audiovisual sector were heavily impacted by Covid-19. The UK audiovisual sector GVA contracted to 66 per cent of January 2019 levels at the height of the first lockdown in May 2020. This is because many audiovisual sector jobs, including TV production, require freedom of movement, which was not possible. However, the audiovisual sector is rapidly recovering, with GVA back up to 96 per cent of January 2019 levels by March 2021 – ahead of the UK economy as a whole, despite many restrictions still being in place on this date.[11]

The success of the UK's TV industry and its global competitiveness drives a virtuous cycle of growth. Channel 4, other UK PSBs, broadcasters and independent production companies have been able to take advantage of the global growth in demand for audiovisual content. This brings additional funding, skills and experience back to enrich UK productions. Some UK independents are acquired by international groups, facilitating their access to new markets. This further supports economic growth and international exports, benefiting everyone across the TV ecosystem – including businesses, broadcasters and audiences.

[10] Pact, *UK TV Exports Report*, 2020
[11] DCMS, 'Monthly GVA', *Sectors Economic Estimates*, January 2019-March 2021

2.2 Channel 4 is at the heart of this success

Section Summary

- Margaret Thatcher's Conservative Government recognised the need to create Channel 4 to stimulate innovation in broadcasting and growth in the UK's TV production sector
- Together with the independent production quota and terms of trade, Channel 4 has fuelled growth in independent production due to its enhanced public remit and symbiotic relationship with the sector
- The growth in independent production and incentives under terms of trade have resulted in global success, with UK TV exports growing over three times faster than French TV exports from 2003 to 2019
- Channel 4 is fundamentally different from the commercially owned and funded PSBs, ITV and Channel 5. They are profit-maximising organisations with some quotas. Their legitimate commercial incentives are not aligned with delivering qualitative public purposes, such as Channel 4's public service mission to provide innovative, distinctive and risk-taking content that reflects alternative viewpoints

Since its creation in 1982 by a Margaret Thatcher led Conservative Government, Channel 4 is a vital route to market for the UK independent production sector, underpinning its position as one of the largest and most vibrant independent production sectors in the world. This is a prime example of how small-scale public intervention can help power innovation and experimentation across the regions and nations of the UK – and in this case, without cost to the taxpayer.

Channel 4 was created with the goal of supporting both consumers and business:

- For consumers, the argument was that a fourth channel was needed to produce shows that appeal to 'tastes and interests not generally catered for by ITV' and that had more appetite for 'innovation and experiment'.[12]
- For business, the Government wanted to disrupt the production duopoly of BBC and ITV, stimulate the growth of an independent production sector and provide more options for those looking to advertise on TV.

This recognised that without Channel 4 as a publisher-broadcaster and without the entrepreneurial and free market ethos of an independent production sector, the vertically integrated BBC and ITV studios lacked sufficient competition and creative challenge to generate innovation, growth and choice. However, the 1986 Peacock Committee, also under a Conservative Government, recognised that in order to secure greater efficiencies, diversity and plurality of supply in the wider TV market, it was also necessary to require BBC and ITV to use independents, through an independent production quota. This was introduced by a Conservative Government in 1990, going beyond the European Television Without Frontiers Directive to reflect the Peacock recommendations and circumstances of the UK.

With Channel 4's support, terms of trade enable the independent production sector to flourish

History shows us that an independent production quota is not enough on its own. The introduction of terms of trade as part of the 2003 Communications Act triggered a new phase of competition and growth for the independent production sector, both in the UK and globally. Together with the independent quota, the opportunity for production companies to own the secondary exploitation rights in their programmes is a key motivating force for the sector to diversify and grow into global leaders in TV production.

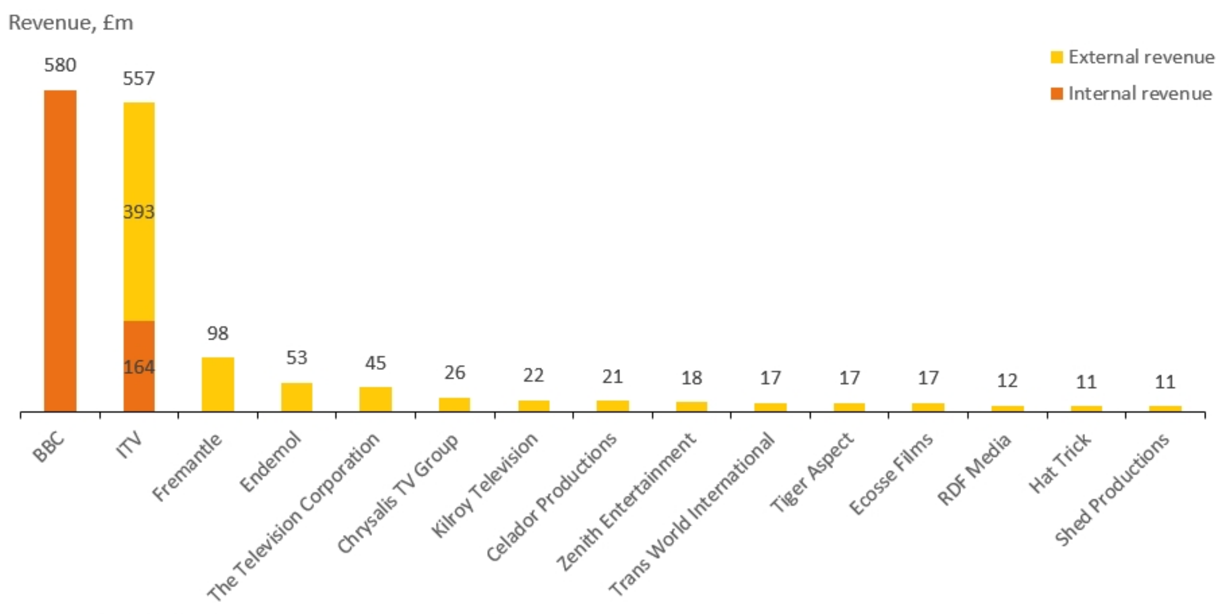
[12] Broadcasting Act 1980

Following introduction of the terms of trade, independent producers' commissioning income from PSBs rose from c.£700 million in 2002 to £1.35 billion six years later, with a further £158 million from the UK multichannel sector.[13] Independents' share of PSB main channel commissioning spend rose from 30 per cent in 2001 to 46 per cent by 2009.[14] Because the terms of trade also created a dynamic market, growth has continued over time.

The terms of trade and IP ownership by independent producers remain essential to the UK's global competitiveness – it is the right to IP ownership that allows new start-ups to access finance, grow, export, attract a buyer and inject renewed creativity into larger independents and the broadcasters' studios, before key talent splits off to create a new start-up and begin the cycle again. In our interviews we heard from independents that, with terms of trade, they have the prospect of a 'pot of gold' if they score an international hit, meaning that they go much further in driving their business forward and investing. In contrast, we heard that buyers in Germany want all the rights and want to see international ratings first – they are reluctant take a risk on an original idea. As a result, producers themselves are much more cautious.

The overall shape of the UK market in 2001, before terms of trade were introduced, is shown in Figure 2. At that time, BBC and ITV together represented three times the UK revenues of the other eight producers in the top 10. At this time around 500 very small producers were estimated to share 10 per cent of the market.[15]

Figure 2: Top UK production companies ranked by UK revenues, 2001

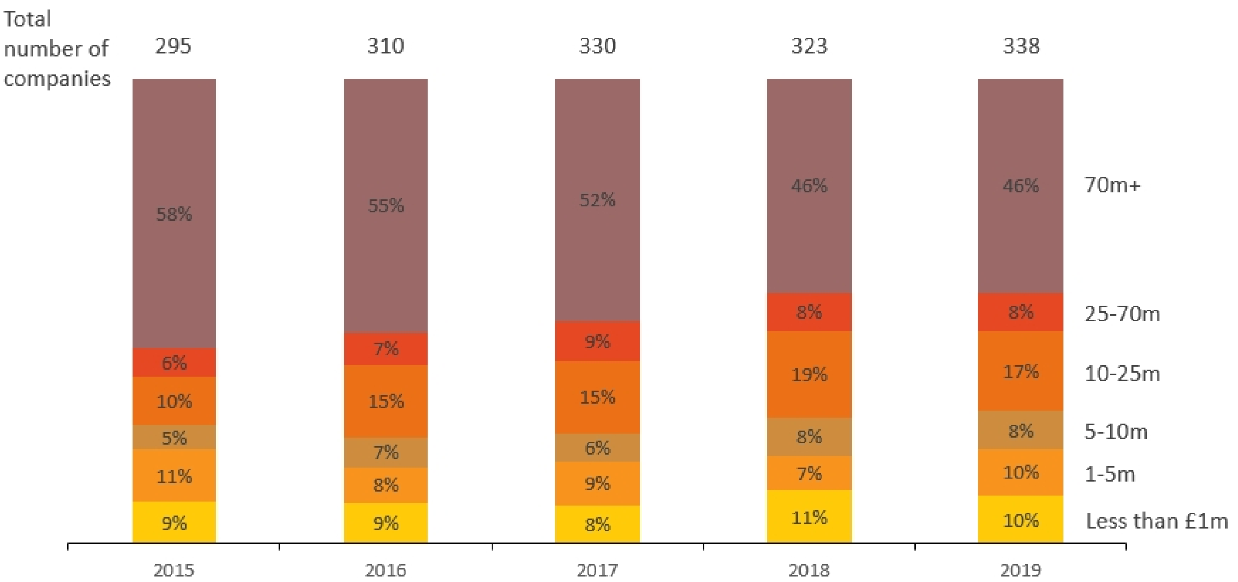


Note: UK revenue, but including overseas revenue from UK rights exploitation
Source: ITC, DGA, Oliver & Ohlbaum Associates analysis, from Ofcom 'Review of the operation of the television production sector', 2015

Today, the UK independent production sector is diverse and vibrant, with SME producers growing their proportion of first-run originated hours on the main five PSB channels from 35 per cent in 2015 to 45 per cent in 2019. Without the judicious mix of public intervention underpinned by Channel 4 and commercial ambition at UK independents, this would not have happened – and could roll back. As noted by Paul Cohen, Group Commercial Director at Hat Trick, 'Terms of trade turned a "cottage industry" into a £3 billion industry. And all that could start unravelling'.

[13] Pact, *UK Television Production Survey: Financial Census*, 2020
[14] Oliver & Ohlbaum Producers Database– proprietary internal resource
[15] Independent Television Commission, *Review of the UK Programme Supply Market*, 2002

Figure 3: Share of first-run UK originated hours across PSB main channels, by independent producer revenue band, 2015 - 2019



Note: Revenue bands assigned to producer groups – revenue has been estimated where information not available
Source: Oliver & Ohlbaum Producers Database

Channel 4 plays an important role in maintaining terms of trade across the PSBs. As the UK's only publisher-broadcaster, Channel 4 relies on a healthy and thriving independent production sector to provide content. It is a symbiotic relationship where Channel 4 benefits from independent production companies retaining international rights, exporting their shows and growing their businesses – as this enables them to produce further high-quality programmes for Channel 4. In 2019, Channel 4 gave up all international revenue as part of renegotiated terms of trade with Pact, the first and only PSB to do so.[16] This position is different from ITV and Channel 5, which are looking to retain more rights by commissioning in-house and/or applying narrower commissioning terms than Channel 4. However, as we show in this report, more in-house production would not simply mean a transfer of the same IP from producers to broadcasters – it would come with a significant weakening of the UK audiovisual sector overall.

Channel 4's unique remit plays a distinct role in promoting growth across the independent production sector

The UK's PSBs and wider television industry is a global success due to the special ecology of the sector, with a range of organisations with different business models, incentives and sizes. These different models mean that there is strong competition between the PSBs and between PSBs and commercial operators. This ecology has been built up over years through judicious public policy interventions to unleash and support the innovation and business ambition of the sector. This combination of public and commercial forces is essential due to the UK's comparatively small home market. As a result, the UK punches well above its weight. Changing part of the ecosystem and upsetting its balance would be a huge risk.

Within this ecology, Channel 4 is unique. Its mixture of commercial funding and public ownership flows through to the incentives on the company. As a publisher-broadcaster, Channel 4 is the only major commercially funded UK broadcaster that does not have conflicting incentives to favour its in-house studios, in terms of commissioning hours and spend and its approach to complying with regulation (e.g. nations and regions quotas), and in particular its more qualitative public purposes. It exists to deliver public value by maximising its reinvestment of commercial revenues directly in content. As observed by Paul Cohen, Group Commercial Director at Hat Trick, 'Channel 4 is different to

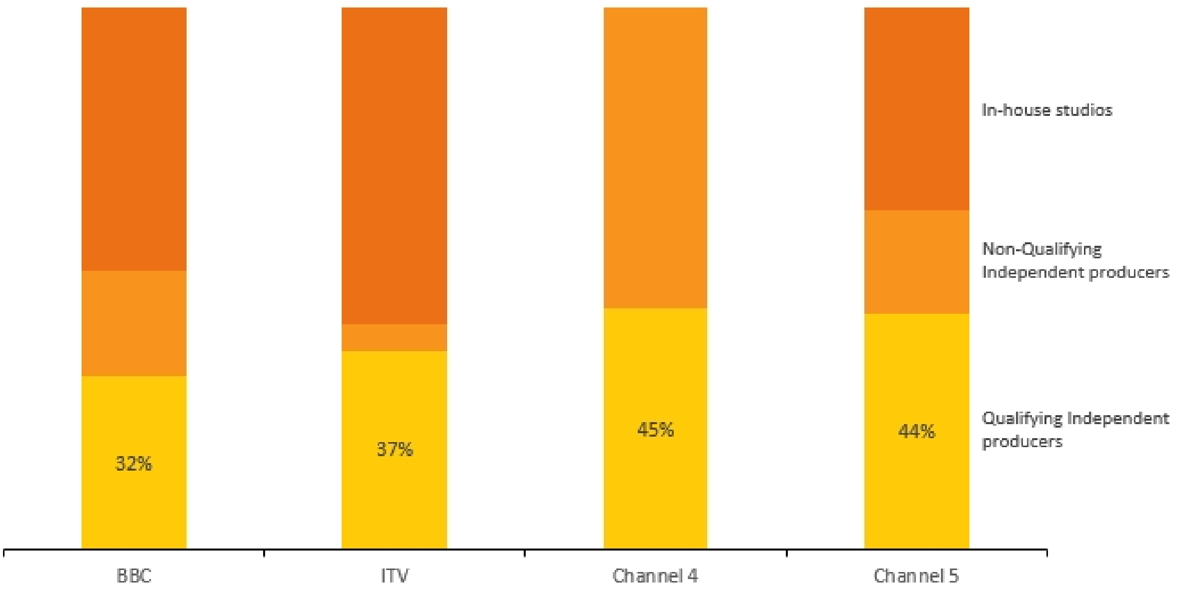
[16] Channel 4, response to Ofcom consultation *The Future of Public Service Media*, 2021

other broadcasters. Channel 4 completes the picture in terms of the UK broadcast landscape – it takes risks and has been taking risks for years'.

Channel 4 invests c.70 per cent of its revenues from broadcasting and online in content, while ITV reinvests around c.50 per cent (pre-Covid).[17] While the proportion that Channel 5 reinvests in content is higher than ITV's, its overall revenues are around a third of Channel 4's and so its ability to drive the sector forward is reduced. We also understand that its upfront investment in programmes is lower than Channel 4's, requiring the independent to plug the funding gap. This is less feasible for newer or smaller independents in particular, which can't spread risk across a portfolio of projects. For example, Channel 4's published tariff as part of terms of trade includes Documentary (peak) at £70-£180 thousand per hour compared to £50-£80 thousand at Channel 5 (series), or £350-£650 thousand per hour for Drama (peak) compared to £150-£200 thousand at Channel 5.[18,19] Channel 4's current role is therefore vital to the ongoing health of the UK PSB and TV ecosystem.

In its lifetime, Channel 4 states that it has directly invested £12 billion in the independent production sector.[20] In 2019, its original content spend was £492 million (accounting for 15 per cent of the sector's £3.3 billion revenue), the third highest spend in Channel 4's history.[21,22] As shown in Figure 4, in 2019 Channel 4 used Qualifying Independent (QI) production companies to produce 45 per cent of its first-run originated hours. This is a higher proportion than both BBC One and ITV, who were at 30 per cent and 37 per cent, respectively, alongside significant use of in-house studios.

Figure 4: Proportion of qualifying hours commissioned by each broadcaster, by producer type, 2019



Note: PSB channels only. BBC values estimated using weighted averages from 2018/19 and 2019/20 financial years. BBC in-house studios includes both BBC Studios and BBC public service studios. Channel 5 in-house studios includes Channel 5 Productions and any other ViacomCBS owned studios. Excludes news and films.
Source: Qualifying Independent hours sourced from Ofcom PSB Annual Compliance Report 2020. Non-Qualifying Independent and in-house studio hours estimated using BBC TV Commissioning Supply Report 2019, annual reports and Oliver & Ohlbaum Producers Database

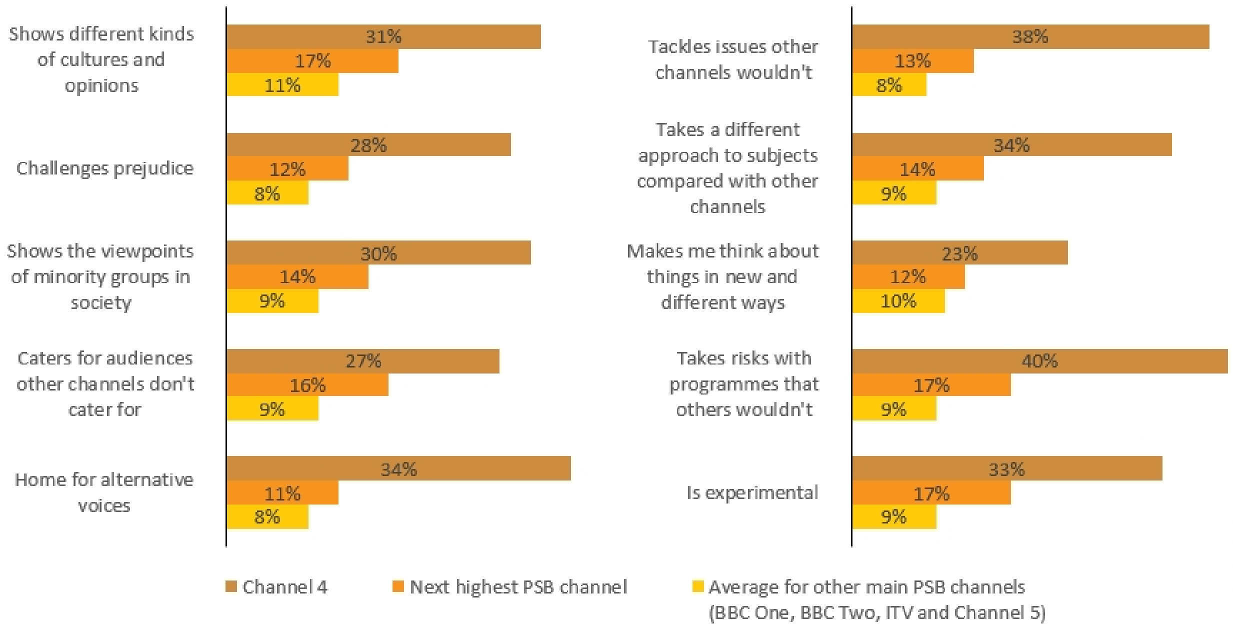
[17] Ofcom, *Small Screen: Big Debate – a five-year review of Public Service Broadcasting (2014-18)*, 2020
[18] Channel 4, *Code of Practice for Commissioning Programmes from Independent Producers*, 2010
[19] Channel 5, *Programme Tariffs for Commissioned Productions Taking Primary Rights Only*, 2012
[20] https://twitter.com/C4Press/status/1407651378697224196
[21] Channel 4, *Annual Report*, 2020
[22] Pact, *UK Television Production Survey: Financial Census*, 2020

Channel 4's remit was extended in the Communications Act 2003 and the Digital Economy Act 2010 to further differentiate it from ITV and Channel 5. Whilst all PSBs are required to provide high quality, varied and balanced content that caters to different audiences, Channel 4's remit includes qualitative public purposes and requires them to nurture creative talent and to provide programmes that are distinctive, innovative, appeal to the tastes and interests of a diverse society. This provides it with a purpose that goes beyond PSB quotas. Minister for Media and Data, John Whittingdale, has suggested that 'Channel 4 has always been a combination of very commercial content balanced with extremely distinctive, more edgy content. The brand is one of the attractions, and that will be preserved by the remit'.[23] However, Channel 4 delivers on qualitative public purposes because its incentives as a publicly owned PSB are aligned. ITV and Channel 5 are different – as commercially owned PSBs they are profit-maximising organisations that are required to comply with certain quantitative quotas in exchange for the quantifiable benefits of mainly prominence and spectrum. If the benefits are felt to outweigh the obligations, they are free to return their PSB licences. Even if the Channel 4 'brand' was included in a future remit, such qualitative obligations are unlikely to be enforceable in the end absent the incentives of public ownership.

Channel 4's public purposes incentivise it to promote innovation

As a result of its public purpose around innovation, Channel 4 operates as a seed fund, or 'sandbox' (see Section 4.1) that is willing to take risks that commercially owned broadcasters will not. When these risks pay-off, they create new commercial opportunities for the wider audiovisual ecosystem, which enhance UK AV's attractiveness internationally. As shown in Figure 5, Channel 4's willingness to innovate and take risks is reflected in public sentiment towards the channel, compared to the other PSBs.

Figure 5: Audience rating of PSB approach to innovation and risk-taking, 2020



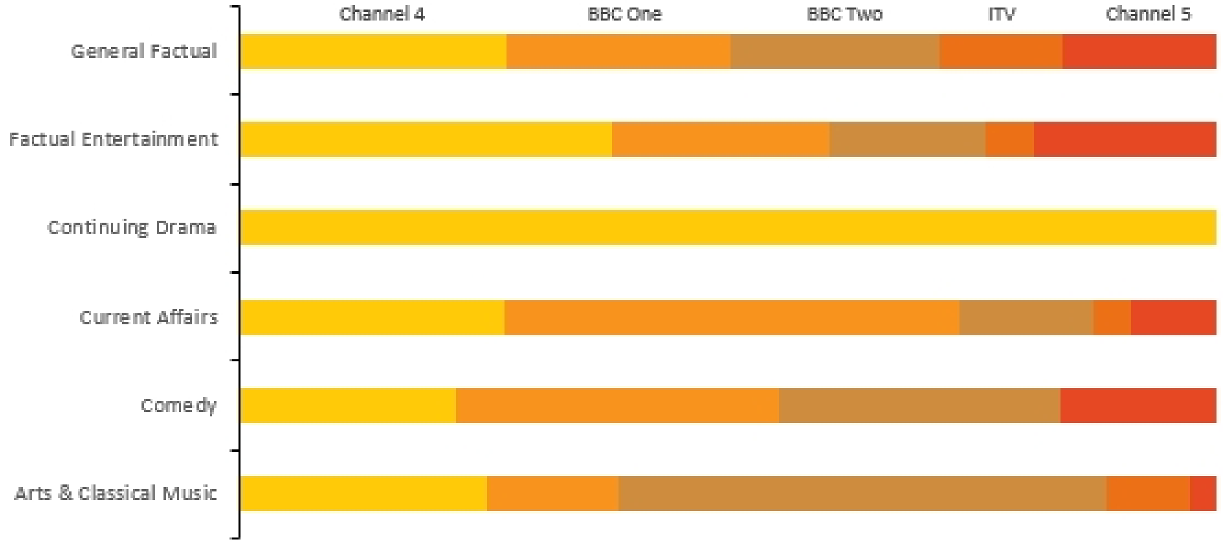
Source: Ipsos MORI commissioned by Channel 4, Channel 4 Annual Report 2020

As well as taking greater risks, Channel 4 commissions in a greater range of genres and therefore across a great range of producer by specialism. As shown in Figure 6, in 2019 Channel 4 was the PSB who commissioned the most hours from independents in General Factual, Factual Entertainment and Continuing Drama (where it is the only PSB who

[23] John Whittingdale, *Edinburgh Television Festival*, 2021

commissions from independents). It also commissioned the second most hours in Current Affairs, Comedy and Arts & Classical Music, where the BBC comes out top. This highlights Channel 4's distinctive role in providing variety and choice for audiences across the UK, and an important source of opportunity for independent producers.

Figure 6: Percentage distribution of first-run UK originated hours from independent producers, by genre, 2019



Note: Genres were assigned using Ofcom's definitions.
Source: Oliver & Ohlbaum Producers Database

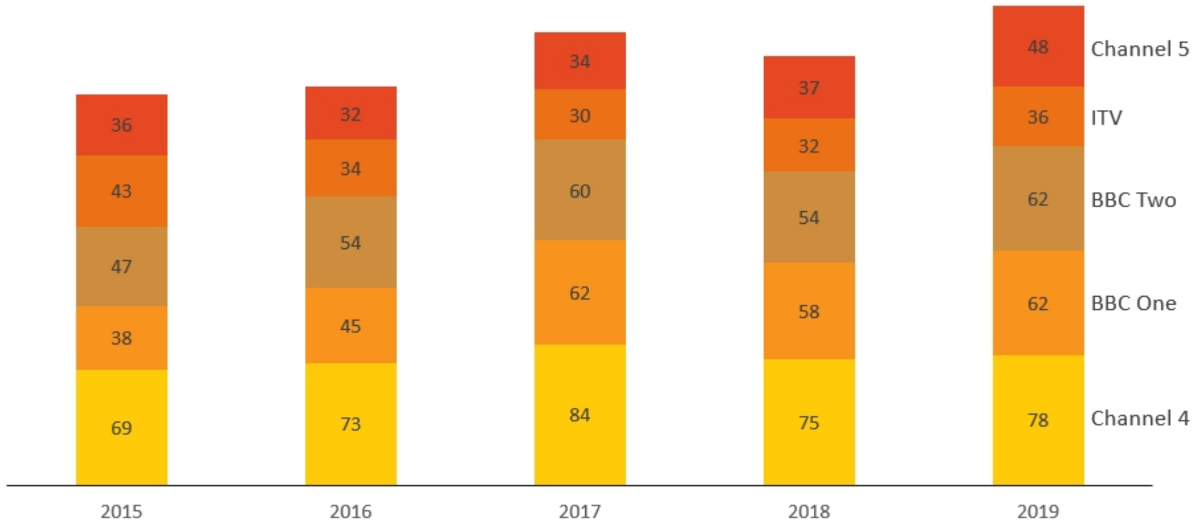
Channel 4's public purposes mean that it commissions more small production companies than other PSBs

At the 2021 Edinburgh TV Festival, Minister for Media and Data John Whittingdale suggested that, as larger independents feature in the market since Channel 4 was launched, this could be a good time to take account of smaller companies and "to support and build up start-ups – change the [Channel 4] remit so it's more targeted on those".

In fact, Channel 4 is already the biggest spender on small production companies (defined as production companies with an annual turnover of less than £10 million) – this relies on the incentives that flow from Channel 4's public ownership.

As shown in Figure 7, Channel 4 commissioned more small production companies than the other PSBs every year between 2015 and 2019. In 2019, Channel 4 commissioned more than twice the number of small production companies as ITV (78 compared to 36). This is likely because smaller companies require more guidance and support from the broadcaster compared to more established companies. We heard in our interviews with independents that Channel 4 is very good at dedicating time to programme and format R&D with smaller companies, and usually provides support including business affairs, legal and budgeting advice. 'It's almost a part of the way that Channel 4 was set up, it feels like the legal team are part of editorial team, it feels like you're being held when taking risks. The legal team is with you every step of the way, and that's necessary when making innovative, risk-taking programming'– Lucy Pilkington MD of Milk and Honey.

Figure 7: Number of small independent TV production companies commissioned by each PSB channel, 2014-19



Note: Small defined as under £10m in revenue. Revenue has been estimated where information not available. Excludes producers only making news, films or sport.
Source: Oliver & Ohlbaum Producers Database

Secondly, the UK's independent sector does in fact have a sizeable and dynamic share of SMEs and start-ups, with new companies launched each year. As noted by Ofcom in its statement on Small Screen: Big Debate (2021), 'The evidence suggests that there has been a steady flow of new entrants into the independent production sector'. This ensures that sector remains competitive. It boasts a dynamic cycle of start-ups and spin-offs, medium and large producers, acquisition and consolidation, and creative talent setting off to found start-ups again. It is a normal feature of this cycle for large independent producers, and in-house studios, to acquire smaller ones as a means to maintain their own levels of creativity and innovation, and to gain new IP. This successful cycle relies on low barriers to entry for new, small production companies and access to commissioning opportunities – which is provided by Channel 4 in particular. Channel 4's focus on commissioning from small businesses and start-ups in particular drives the economic cycle of the sector. All PSBs and other UK commissioners then benefit in terms of lower commissioning costs, access to deficit funding by independents and increased investment in R&D and skills and training.

Channel 4's public purposes mean that it voluntarily commissions more from the Nations and Regions

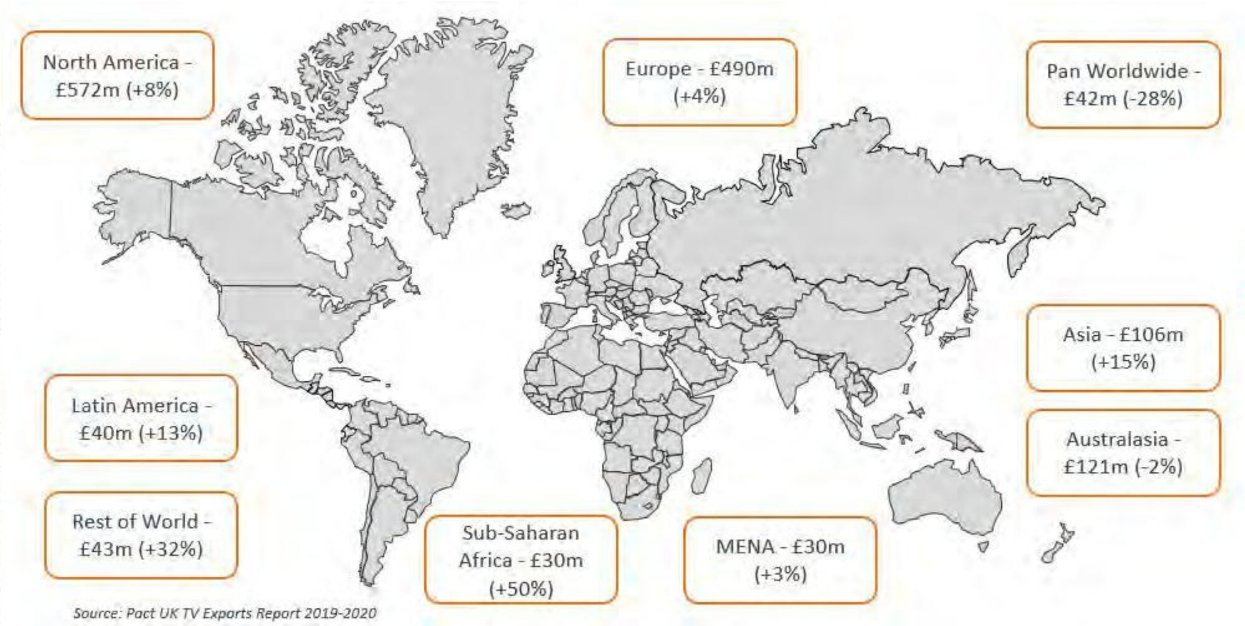
Although Channel 4's Nations & Regions quota is the same as ITV at 35 per cent, it made a voluntary commitment to raise this to 50 per cent by 2023, representing up to an additional £250m investment. It had already reached 45 per cent spend (£189 million) and 54 per cent of hours in 2019.[24,25] By investing in independent producers outside of London, Channel 4 pushes the economic and social benefits of the audiovisual sector out around the UK, enabling these businesses to grow and to access global markets.

Channel 4 converts independents' growth into export success

The US and Europe (led by France, the Nordics and Germany) are the UK's top export destinations along with Australia and Canada, while strong growth can also be seen in emerging markets in Asia, Sub-Saharan Africa and Latin America. Such TV exports help to raise awareness of the UK as an innovative, creative nation, promoting wider trade and diplomatic ties.

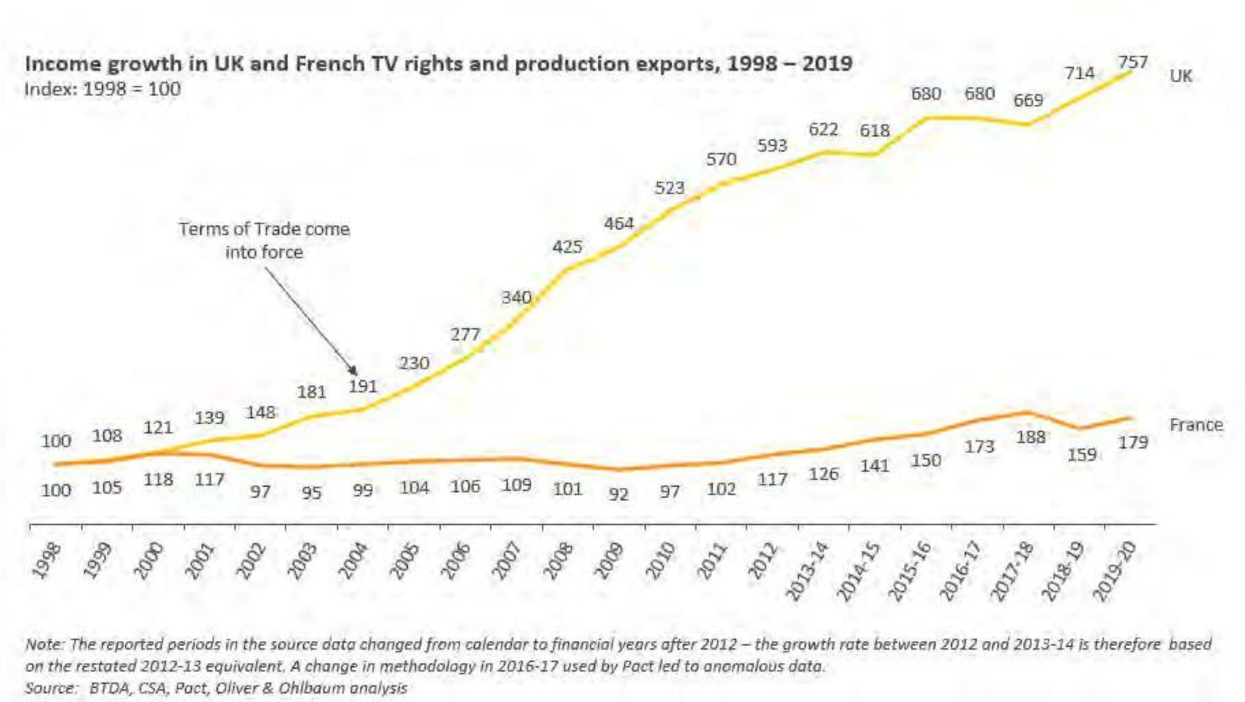
[24] Ofcom, *Annual PSB Compliance Report*, 2020
[25] Channel 4, *All for the UK Case Studies*, 2020

Figure 8: UK TV global exports growth across established and emerging territories, 2019 - 2020



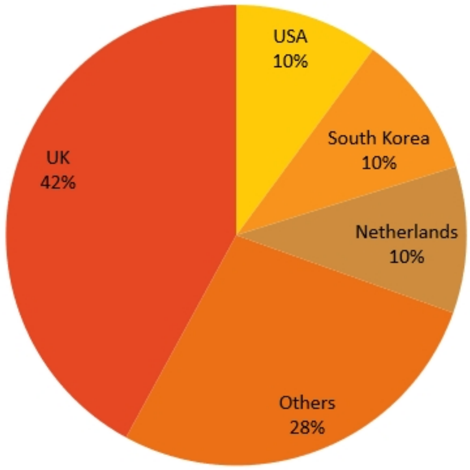
This level of growth seen in the UK contrasts sharply with other European countries, such as France – which has a strong and partly protected domestic TV content sector. The same export categories grew by 320 per cent for the UK between 2003 and 2019 – and by 88 per cent for France over the same period (notwithstanding other differences like language).

Figure 9: Income growth in UK and French TV programme rights and production exports, 1998 to 2018



This international success has seen the UK evolve into a formats powerhouse. As shown in Figure 10, the UK was the largest exporter of TV formats in 2020, with 42.1 per cent market share of global TV format sales by volume. This is because of the rights ownership incentive provided by terms of trade that encourages production companies to develop formats with potential for secondary sales. 'Terms of trade has allowed indies to expand. It helps them develop programme formats that they can export – that's the holy grail for indies. Getting it right with Channel 4 is the thing that allows them to grow' – Lucy Pilkington, MD at Milk and Honey.

Figure 10: Television format volume of sales by country of origin, 2020



Source: K7 Media: Tracking The Giants

2.3 Channel 4 is sustainable for the future – and a vital component of a modern PSB system

Section Summary

- Broadcast TV accounts for the majority of viewing across all audiences – and is viewed six times more than SVOD services on average
- Contrary to the hypothesis proposed by DCMS, PSB derived revenue still accounts for most of the income generated by the independent production sector – whereas SVOD commissions are 9 per cent of sector revenues. And SVOD commissions often come without any IP rights – independents continue to rely on Channel 4 as part of their portfolio, for stability and growth over time
- The DCMS consultation reaches a hasty conclusion on the future of Chanel 4 – it has shown no signs of struggling to respond to market dynamics and is forecast to generate over £1 billion in revenue in 2021 for the first time
- Channel 4 has overcome significant challenges in the past and has always come out stronger. Throughout its 40-year history, it has successfully navigated three advertising recessions and huge increases in competition from the advent of Channel 5, digital satellite and Freeview – adapting to the competition provided by SVODs and digital advertising is no different. It is sustainable for the future

It is true that the TV industry is going through a period of globalisation and consolidation, driven by audiences moving online. Changing audience behaviour appears to have accelerated in 2020 due to the pandemic, with SVOD services experiencing growth in subscriber numbers in 2020. However, these changes should not be overstated. Broadcast TV accounts for the majority of viewing across all audiences and contributes the most revenue for the independent production sector – Channel 4 is at the heart of this. And it would be hasty to draw conclusions about the future of

Channel 4 and other UK broadcaster revenues. Channel 4 has many levers it can pull under its current model and should be allowed to prove itself.

Broadcast TV content still accounts for the majority of viewing across all audiences 4+

While viewing to total live broadcast TV is gradually falling, viewing to live plus catch-up is more robust and viewing to BVOD is increasing year on year.

On average, audiences watched broadcast TV services for 67 per cent of the 4 hours and 50 minutes spent consuming video in 2019, compared to 11 per cent (32 minutes) for SVOD. 10.7 million people watched the *Great British Bake Off*, Channel 4's most watched programme in 2020. While average minutes to BVOD services (including the PSB players) were below those to SVOD at 11 minutes a day, this is because viewers have other means to watch catch up, with viewing of recordings via PVR at 30 minutes a day on average, and in any case BVOD viewing is growing. Young audiences aged 16-24 are spending less time watching broadcast TV services than the average, but still watched around 1 hour and 20 minutes per day or 31 per cent of their viewing time, well above the 23 per cent of viewing time they spent watching SVOD.

For the PSB channels, total share of viewing has been stable at c.55 per cent 2015-2019 and in 2020.[26] To deliver digital transformation and better reach young audiences, PSBs are developing their own VOD services, supported by new commercial agreements with independent producers. This includes an extended catch-up window, box sets, online commissions, and functionality.

The PSBs are still the dominant commissioners for UK producers

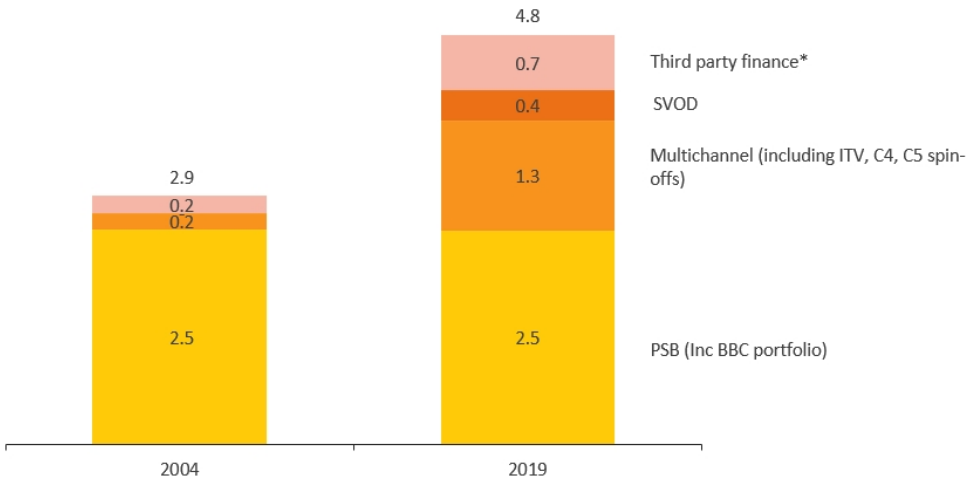
In its consultation, DCMS suggests that 'growing production budgets across Video on Demand (VoD) platforms make it increasingly difficult for domestic players without access to significant capital to support strategic investment to compete. This is reflected across a number of genres, including high-end dramas'.

In fact, the level of public service broadcaster spend on new UK programmes remains broadly comparable to 2004 at about £2.5 billion each year. While it is true that PSB investment as a *percentage share* of total investment has fallen, that is because of growing third party spend. Even by this measure, PSB commissioning is dominant, at just over half of total investment. A growing element is third party finance – to address changes in production costs, independent producers put together third party financing and co-productions to be able to green light a PSB production. This includes high-end dramas for Channel 4. Recent Channel 4 co-productions include *It's a Sin* with HBO Max and *The End of the F***ing World* with Netflix. Examples of recent Channel 4 acquisitions of high-end drama include Hulu's *The Handmaid's Tale*.

As shown in Figure 11, third party financing was almost double SVOD commissioning value in 2019. SVOD has the smallest share at £0.4 billion in 2019. While SVOD services intend to spend more in the UK, they would have a long way to come near PSB levels. This makes sense considering their different business model and objectives.

[26] Ofcom, *Media Nations*, 2021

Figure 11: Total UK TV production investment, 2004 and 2019 (£ billions, nominal terms)



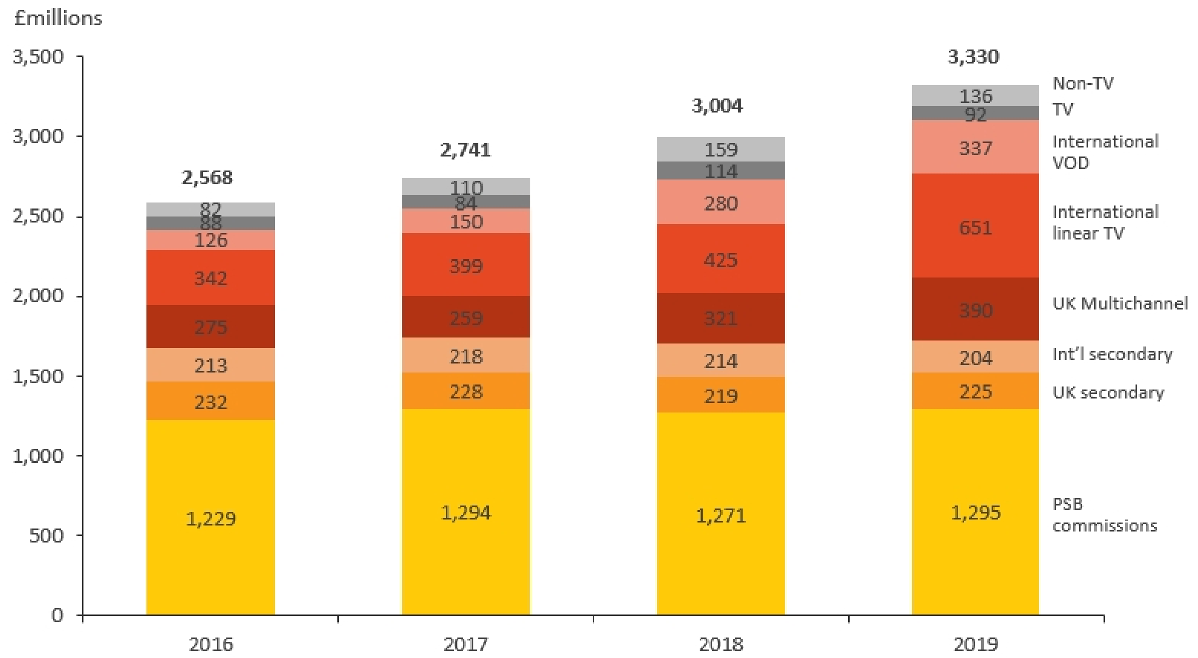
*Note: Includes news, but excludes sports rights and inward investment (e.g. spending in the UK by US Studios on programmes made primarily for the US market). *2018 value*
Source: Ofcom, COBA, Oliver & Ohlbaum estimates and analysis

Secondly, DCMS states that 'the UK's independent production sector is now flourishing and increasingly less reliant on income from UK public service broadcasters. In the 10 years between 2008 and 2018, the contribution of PSB commissions to sector revenue fell from 64% to 42%, due in large part to the growth of international revenue', citing the Pact Census 2020, carried out by O&O. DCMS then suggests that changing Channel 4's publisher-broadcast status could enable Channel 4 to generate its own IP for sales worldwide and diversify its revenue.

This is a misinterpretation of the data regarding independent production company revenue growth as is does not account for income derived from sales of secondary rights from PSB commissioned programmes. In 2018, secondary sales provided UK production companies with £433 million in revenue (see Figure 12, UK secondary and International secondary). If we assume that revenue from secondary rights is proportionate to commissioning value then revenue derived from PSB commissions would amount to 54 per cent of total industry revenue – over 10 per cent higher than suggested by DCMS, and a majority share.

In contrast, in 2018 international VOD commissions only accounted for 9 per cent of total industry revenues. This revenue is usually made up of one-off payments as international VOD companies often operate on a 'work-for-hire' basis and retain all programme IP. We heard in interviews that independents can only afford to work for SVOD if they have a portfolio of productions, including a share with the UK PSBs so that they can access the IP necessary for stability and growth. This difference was brought into sharp relief during the Covid-19 pandemic when many productions were delayed; independents with a back catalogue could rely on selling rights for cash flow – which requires them to own the IP. In normal times, independents rely on exploiting their existing IP to fund new programme development – a drama can take 3-4 years to get to screen. Otherwise, having a PSB including Channel 4 as an anchor funder in a co-production with an SVOD gives independents a lever to retain some IP. Given the incentives flowing from its public ownership and the size of Channel 4's commissioning budget, which is fully dedicated to external commissions, it plays an essential role in the market.

Figure 12: Independent producer TV-related revenues, by type and source, 2016-2019



Source: Pact UK Television Production Census 2020, Oliver & Ohlbaum analysis

SVOD do not invest in a comparable range of sizes and specialisms of independent producer

Channel 4 has a universal remit to serve all UK audiences with distinctive British content across the full range of genres, which they achieve by using programme budgets to fill linear schedules as well as All 4 with a broad range of content. In contrast, SVOD output is based on fewer 'stand out' high budget commissions (or co-funded projects) to the extent necessary to drive local monthly subscriptions (Netflix), wider strategies such as e-commerce (Amazon), or a hardware and brand ecosystem (Apple).

In addition, as Ofcom notes in 'Small Screen: Big Debate', 'the UK content on these streaming services tends to be in a narrower range of genres (predominantly comedy and drama) than that offered by the PSB channels'. Even within those genres where both SVOD and PSB are active, SVOD services generally commission in a different budget range.

This means that SVOD commission from a narrower range of independents, in terms of their size and specialisms (on top of a lower volume of total commissions). Together with the lack of IP granted to independents by SVOD in many cases, this would not sustain the UK independent sector's dynamic cycle of start-ups and growth. This is perfectly legitimate – SVOD have a different business model and role in the market.

Weakening the independent sector would harm the other UK broadcasters, in terms of commissions but also their ability to creatively renew themselves by acquiring or investing in independent producers with fresh ideas. And it would harm the UK's status as an AV hub – unlike the UK PSBs, global SVOD and Studios are not bound to produce in the UK. Without a vibrant UK domestic sector to anchor inward investment here, it could move around according to global competition in fiscal incentives. UK producers would lose diversity in their revenue streams and creative outlets, in terms of being able to work across PSB, UK multichannel and SVOD, and could be left exposed if another service industry destination opened up, for example in a lower cost territory.

The consultation reaches a hasty conclusion on the future of Channel 4

As discussed above, the PSBs still account for over half of all viewing in the UK and for over half of the value created by the independent production sector – through both commissioning value and value derived by secondary sales. Channel 4 is a cornerstone of the PSB system and has proved it is sustainable and has a robust plan to adapt to future market dynamics.

Channel 4 continues to perform successfully, generating £985 million in 2019 and £934 million in 2020, only a 5 per cent decline despite the challenges presented by Covid-19.[27] Channel 4 made Covid-19 provisions by cutting content spend from £660 million in 2019 to £522 million in 2020. However, by increasing digital advertising revenue to a record £161 million, Channel 4 was able to record a £74 million surplus in 2020, proving its ability to adapt to new market conditions. As a result, it has committed to increase its planned content spend by a further £40 million for 2021 and 2022.[27]

In 2020, Channel 4 launched its Future4 strategy to ensure Channel 4 thrives in the digital age and continues to deliver for the creative industries, economy and wider public. The strategy includes the following targets:

- Double All 4 viewing by 2025
- Digital advertising to be at least 30 per cent of total revenue by 2025
- Non-advertising to be at least 10 per cent of total revenue by 2025

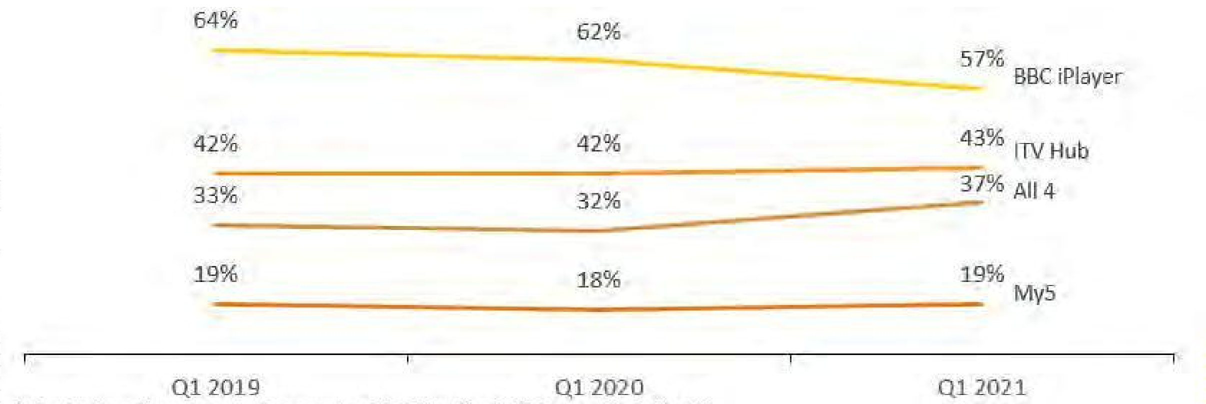
Measures to achieve these targets include a content strategy more focused on younger audiences and on-demand formats, and personalisation through improved recommendations and marketing.

Channel 4's VOD platform, All 4, is a British VOD champion and Channel 4 is investing in its development. Previously known as 4oD, Channel 4's VOD service was launched in 2006 – the first UK broadcaster to launch a VOD service and one of the first in the world.[28]

Channel 4 has developed All 4 significantly over the past five years with total views reaching 1.25 billion in 2020, more than double the 620 million views in 2016 and a 26 per cent increase on 2019.[27] This trend has continued into 2021, with All 4 viewership up over 30 per cent YTD. For comparison, ITV saw online viewing on ITV Hub decline by 5 per cent in 2020.[29] 80 per cent of all 16–34-year-olds are registered to All 4, making it the youngest profiling PSB streaming service. As shown in Figure 13, All 4 is the BVOD that has grown audience reach the most over the past two years.

[27] Channel 4, *Annual Report*, 2020
[28] https://www.channel4.com/press/news/channel-4-launches-4od-video-demand-service
[29] ITV plc, *Full year results for the year ended 31 Dec 2020*

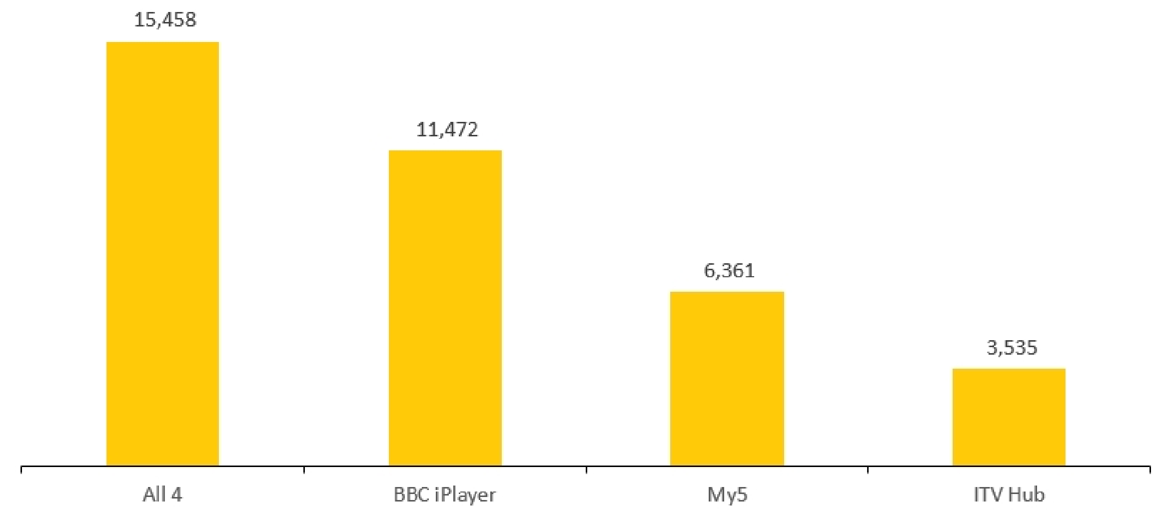
Figure 13: Monthly reach of UK BVOD services (Q1 2019 – Q1 2021)



Note: Nationally representative sample of 2,000 online 18-64 year-olds in the UK
Source: Ofcom Media Nations 2021

With over 15,400 hours of content available, All 4 is also the biggest free streaming service in the UK (Figure 14). Channel 4 is increasing the number of boxsets and the series that it makes available on demand in full as soon as the first episode airs, ahead of the linear schedule for subsequent episodes, with the stacking of drama *It's A Sin* driving record streaming for the broadcaster in January 2021 – with views up 91 per cent compared to January 2020.[30]

Figure 14: Broadcaster online video services' total content hours, April 2021



Source: Ofcom Media Nations 2021

To build its digital and social media presence, Channel 4 launched its new digital content unit, 4Studio, in 2020 to create exclusive content for the major social media platforms to deepen young audiences' relationship with Channel 4.

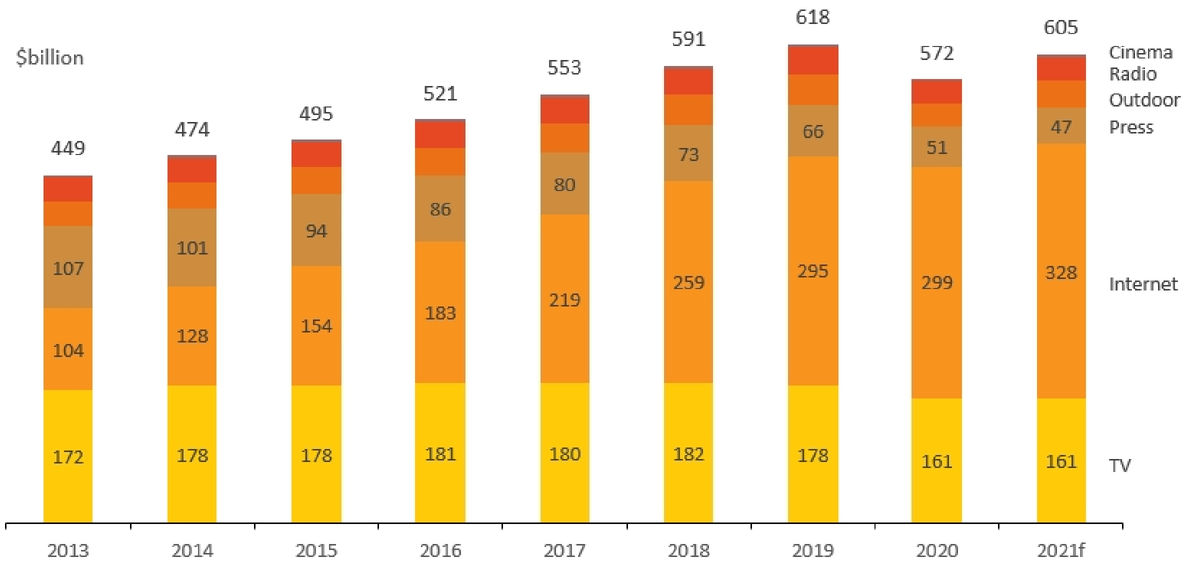
To futureproof its advertising revenues, Channel 4 is investing in new forms of advertising, including addressable advertising and 'media for equity'. 4Sales offers a range of innovative and privacy-compliant data-driven digital ad products on All 4, allowing brands to show different ads to different households watching the same programme and to target campaigns based on a wide range of demographic factors, or to build tailored VOD messages using their

[30] https://www.channel4.com/press/news/acclaimed-new-drama-its-sin-drives-record-all-4-streaming

existing creative.[31] Channel 4 also has a multi-year partnership with Sky to enable fully targeted, addressable ads across its channels and All 4 on the Sky platform[32]. Channel 4 Ventures is the UK's leading 'media for equity' fund (an alternative business model where companies trade equity for advertising space) and has investments in over 20 start-ups, including Pinterest, Crowdcube and The Meatless Farm.[33] Meanwhile, Channel 4 launched All 4 Private Marketplace in August 2021, an advertising innovation to allow brands to buy digital advertising space around All4's content, making Channel 4 the first UK broadcaster to make its vast programme inventory available through automated real-time bidding. Brands can now upweight their investment in real-time[34].

The decline in linear TV advertising should not be overstated. There are many ways in which it is different from digital advertising on social media platforms. TV advertising provides mass audience exposure for new products and services in a short timeframe, allowing brands to rapidly scale, develop a mainstream presence and benefit from the channel's trusted brand. For example, *The Great British Bake-Off* regularly provided advertisers with an audience of over 10 million viewers in 2020. This level of audience reach over an hour time frame cannot be replicated by social media advertising – which is effective for start-ups and niche products but is not as effective for building mass market brands. As shown in Figure 15, from 2013 to 2019, social media / internet advertising has grown at the expense of press advertising, which was substitutable by offering a better way to target classified ads. TV advertising has remained broadly stable (except for 2020/2021 caused by fewer sporting events due to Covid-19. This is expected to reverse in 2022).

Figure 15: Global display advertising by type, 2013-2021f



Sources: Zenith, Oliver & Ohlbaum analysis

It is likely that current growth in internet advertising will level out as the market reaches maturity and the overall advertising market reaches an equilibrium. Therefore, it should not be presumed that total TV advertising will decline over the longer term.

By investing in new linear advertising technologies and business models, and by diversifying into digital advertising and non-advertising revenue, Channel 4 is well placed to continue to grow its revenues, regardless of any falls in traditional linear advertising revenue. DCMS's concerns that Channel 4 is not sustainable are pre-emptive. Channel

[31] https://www.channel4.com/press/news/4sales-launches-market-leading-suites-digital-ad-products
[32] https://www.channel4.com/press/news/channel-4-and-sky-expand-long-term-partnership
[33] https://www.channel4ventures.com/investments
[34] https://www.channel4.com/press/news/channel-4-launches-real-time-bidding-all-4-uk-broadcast-industry-first

4 has shown no signs to suggest it is struggling in the market. It has a robust plan to future proof its business model and should be allowed to prove itself. There is also the risk that the consultation overlooks Channel 4's distinctive purpose in the market – it is not profit maximising but exists to drive innovation and competition in the wider UK audiovisual sector.

Channel 4 overcomes challenges and always comes out stronger – thanks to its public purposes to innovate and take risks

The debate over Channel 4's ownership model is as old as the channel itself. In the discussions ahead of the Broadcasting Act 1981, there was a strong lobby for making the new fourth channel wholly commercial, but this was rejected by Margaret Thatcher, who saw the benefit in a public channel with a distinctive remit and a duty to commission from independents.[35] In 1988, the Government's White Paper 'Broadcasting in the 90s' proposed privatisation as the first option for Channel 4, but the idea was again rejected after the Government agreed with Channel 4's CEO that you 'could have a privatised channel or one with a public service remit, but not both'.[36]

Privatisation was considered again in 1996 and 2003 before a discussion in 2009 due to Channel 4's weakened financial position in the advertising recession. However, the Government concluded 'a minority privatisation, even on terms that provided significant additional funding over the short to medium term to invest in television programming, could not be assured of delivering the public policy objectives over the long term'.[37]

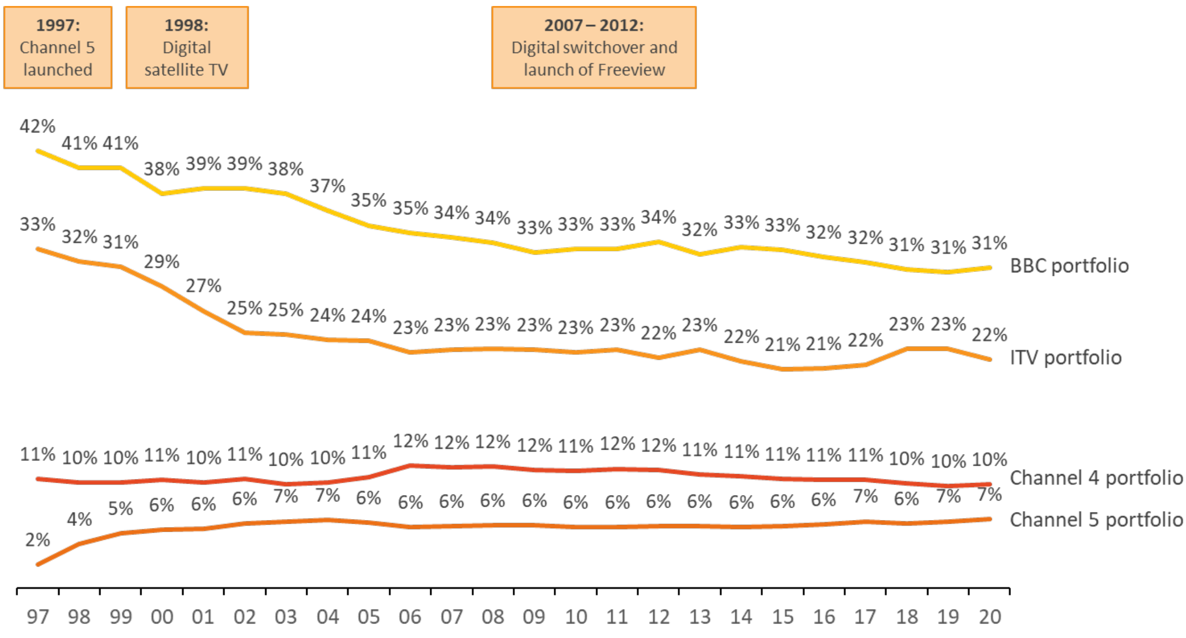
Most recently, a change of ownership was proposed in 2015 due to a concern over the rise of 'new distributors' and a 'changing media landscape'. However, the proposal was ultimately rejected, with the House of Lords Committee summarising 'We heard little evidence to suggest that C4C itself or the creative industries would benefit from full or part privatisation. The risks appear to outweigh any potential benefits'.[38] Karen Bradley, Secretary of State for DCMS, concluded the matter in 2017 by stating 'Channel 4's public service model and remit, which are so vital to the continued strength of the UK's broadcasting ecology, would not be best served by privatisation'.[39]

The proposals to change the ownership model of Channel 4 have always been motivated by concerns about Channel 4's future sustainability, given a constantly evolving media landscape. However, Channel 4 has overcome every challenge in its 40-year history and has come out stronger every time, for example:

- **Maintaining audience share through the launch of Channel 5, digital satellite television and Freeview.** The launch of Channel 5 and introduction of digital satellite television, spearheaded by Sky, provided significant additional competition. This was followed up by the digital switchover in the late 2000s, creating Freeview and an explosion in new FTA channels in all homes. However, Channel 4 responded by launching its own portfolio of channels, including E4, Film4 and More4, and the UK's first BVOD service All 4 in 2006. This has enabled it to maintain consistent portfolio audience share of between 10 to 12 per cent from 1998 right until 2020, proving its enduring appeal to audiences and ability to innovate to maintain market position. This contrasts with the BBC and ITV, who have lost audience portfolio share over the same time period – from 42 to 31 per cent, and 33 to 22 per cent, respectively. Channel 4 had no trouble adapting to new market entrants and an explosion in consumer choice – SVOD services are just the latest example of this.

[35] House of Lords Select Committee on Communications, *A privatised future for Channel 4?*, 2016
[36] Maggie Brown, *A Licence to be Different*, 2007
[37] BIS and DCMS, *Digital Britain: Final Report*, 2009
[38] House of Lords Select Committee on Communications, *A privatised future for Channel 4?*, 2016
[39] Karen Bradley, *letter to Lord Best*, 2017

Figure 16: Audience share of PSB channel portfolios, 1997 to 2020

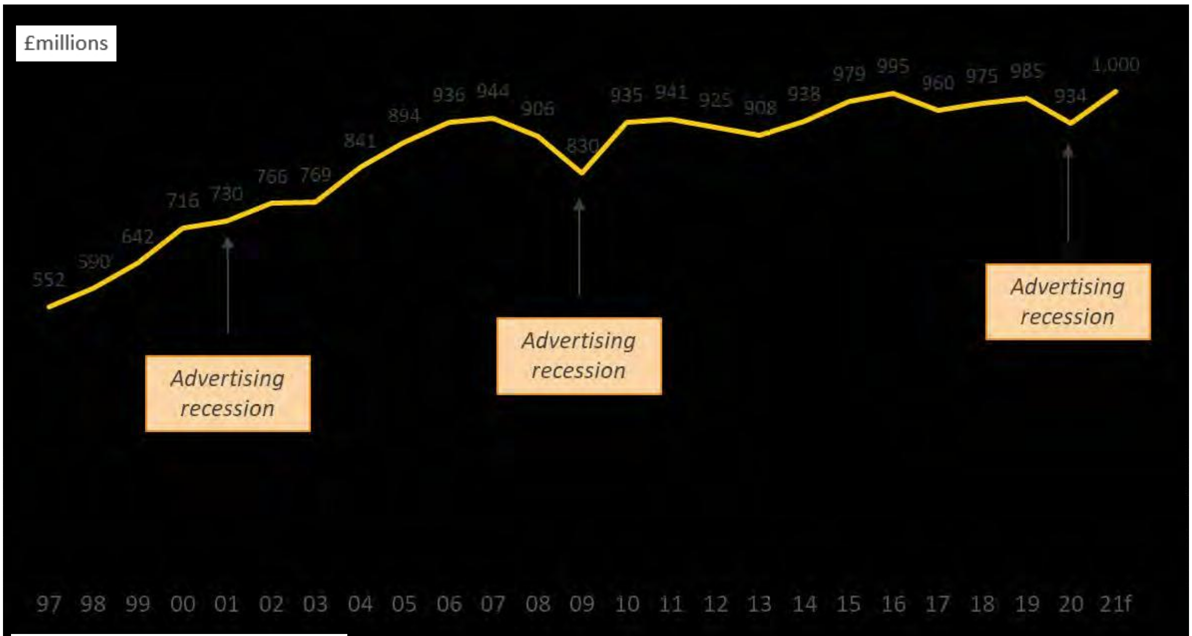


Source: Channel 4 Annual Reports

- **Navigating advertising recessions in 2001, 2009 and 2020.** Channel 4 is predominantly funded by advertising. Despite this, it has repeatedly shown it can navigate downturns in the advertising market, both through resilience during the downturn and its ability to bounce back quickly once the market improves. As shown in Figure 17, Channel 4 actually increased revenues during the 2001 advertising recession, and revenues fell by only 8 per cent in 2009 and 5 per cent in 2020. By comparison, ITV's total revenue decreased by 16 per cent in 2020.[40] In 2010, Channel 4 bounced back to produce revenues that were higher than before the recession and as already mentioned, it is forecast to repeat this feat in 2021, with revenues expected to exceed £1 billion for the first time in its history.

[40] ITV plc, *Annual report*, 2020

Figure 17: Channel 4 revenue, 1997 to 2020



Source: Channel 4 Annual Reports

- **Innovating ahead of the market to provide content that is relevant and innovative**. Channel 4 has been through multiple phases of transformation in its 40-year history. It began life in the eighties as an alternative channel, focused on edgy comedy and providing UK audiences a chance to see a wide range of top US comedy shows, including *Cheers* and *Golden Girls*. With the introduction of the independent quota in 1993 and the cost of US acquisitions rapidly increasing along with the growth of new entrant Sky, Channel 4 reinvented itself as a younger skewed and lifestyle channel, where it focused on developing highly innovative factual entertainment programmes including *Big Brother*, *Location, Location, Location* and *Grand Designs*, which inspired changes across other broadcasters. With the increased number of channels in the early 2000s that were moving into Channel 4's unique market position, such as Sky One, ITV2 and Comedy Central, it once again pivoted strategy to stay ahead of the market. With the fast-growing independent sector, Channel 4 reinvented itself as the alternative mainstream channel it is today, which champions the independent sector and wins large audiences by commissioning shows that are distinctive and give a voice to different perspectives and new talent.[41] Again, adapting to global SVOD is just the latest iteration of this.

[41] Oliver & Ohlbaum and Channel 4, *Channel 4 taking risks challenging the mainstream*, 2014

Changing Channel 4 risks a slow decline of the UK audiovisual sector

3 Changing Channel 4 risks a slow decline of the UK audiovisual sector

We have shown that Channel 4 has a unique role underpinning investment in the UK independent production sector – in terms of the size of its investment in external commissions, including from start-up independents and the Nations and Regions; its overall support for terms of trade and independents' growth and exploitation of IP in international markets; the absence of conflicting incentives that inevitably flow from commercial ownership with in-house studios. In this section we show the risks to the overall health of the PSB ecosystem and the wider AV sector, should the incentives and remit of Channel 4 be changed. That is a logical and inevitable outcome of a change in ownership and so would require extremely careful handling by the Government; it is not clear if the risks can be wholly mitigated at the point of sale or in the medium to long term, and from our illustrative estimation they seem likely to outweigh a one-off sale price (Part 5).

3.1 Consolidation involving major national broadcasters is not proven – and Channel 4 is different

Section Summary

- Consolidation between major national broadcasters raises significant questions about media plurality and competition. The proposed merger between TF1 and M6 in France is subject to review by the competition authority
- The stated reasons for broadcaster consolidation merit close examination and are not a given – PSBs remain dominant in the commissioning market and changes in commissioning would put smaller producers and those from the Nations and Regions at risk in particular
- Channel 4 exists to drive value for the independent production sector and wider TV ecosystem rather than for profit maximisation – a proposed merger based on an argument of realising cost efficiencies overlooks this vital point

In its consultation on a change in ownership of Channel 4, DCMS notes that there is 'increasing competition from well-funded global companies (where we are seeing a wave of consolidation) able to leverage significant financial resources'. This raises the question of whether, in order to compete, consolidation is the answer in UK broadcasting.

Certainly, consolidation is already a feature of the UK market, including with international players. As the consultation notes, ViacomCBS acquired Channel 5, Comcast has acquired Sky Europe, and a future acquisition of ITV is regularly discussed. However, none of these involved merging two major national broadcasters in the same market – that would raise considerable media plurality and competition questions.

A merger of major broadcasters TF1 and M6 has been proposed in France. This remains subject to clearance by both the media regulator CSA, including on media plurality grounds, and the competition authority, *Autorité de la Concurrence*. The competition authority sees important questions for competition along the value chain. The broadcasters together have c70 per cent of the TV advertising market. While they invoke the total advertising revenues of the tech giants, for the authority it is not clear that these are partly or fully in the same market considering e.g. the purpose of the advertising or who the buyers are.

Secondly, it is necessary to consider the impact on programme distribution across linear and online services, programme and sports rights, and production. While major UK broadcasters may argue that a merger is necessary to compete with global SVOD on content, as explained in Part 2, they are not generally commissioning in the same market.

This leaves us with the argument of cost savings. However, we have to ask where those savings would come from. A reduction in competition in the advertising, content or distribution markets could put a merged entity in a position, to a greater or lesser extent depending on the parties, to remove investment from on-screen and to reduce choice in content and services while maintaining advertising prices. Considering the existing commissioning patterns set out in Part 2, commissioning in the Nations and Regions and commissioning from start-ups and smaller independents would seem especially at risk – but these are the lifeblood of the UK's dynamic independent production sector. We have to believe that the overall health and competitiveness of the UK audiovisual sector is paramount over short-term savings. The UK's leading role in global TV could be at stake.

Many existing levers are available to Channel 4 and other national broadcasters to strengthen their competitive position, diversify their revenues and make efficiency savings through partnerships – indeed Channel 4, BBC and ITV have just brought together Freeview and Freesat to benefit from a streamlined approach to technological innovation and product development. According to reports in January 2021, the PSBs have discussed the development of a single free streaming app that would aggregate live broadcasts and on-demand programming in one place, accessible via a single sign-on.[42] In other markets, TF1, M6 and France Télévisions recently launched a joint VOD service 'Salto'. Meanwhile the German PSBs ARD and ZDF are launching a joint 'streaming network' to connect their public service BVOD players with shared search, sign-in, recommendation and personalisation functionalities. Other public institutions may join. The major commercial broadcasters in Germany, RTL and ProSiebenSat.1 have entered into a 50/50 partnership for addressable TV and online video advertising.

Channel 4 is different

Moreover, arguments in favour of consolidation involving Channel 4 fail to recognise two vital points. Firstly, it is the independent production sector, with Channel 4 as its prime supporter and route to audiences, that already delivers – hugely successfully – the benefits that the Government proposes a change in Channel 4 ownership would be needed to bring about:

- access to capital, by contributing third party financing to make up production budgets (see Figure 11)
- dynamic investment in new technology and programming to serve audiences better, going from fixed rig documentaries *Educating Yorkshire* to *The Circle*
- income diversification from secondary exploitation of programmes and formats, and IP licensing for ancillary products and merchandise such as games
- access to strategic partnerships to bring together programme financing from different markets and local marketing expertise for exports
- access and expansion into international markets via growth into international groups, and through programme and format exports
- providing audiences with content that serves the whole of the UK and contributes to its social and cultural life, since independents are spread across the Nations and Regions and can drive growth and exports from these locations (in contrast, ITV Studios and Viacom Studios are mainly based in England – London, and Manchester where the BBC drove the growth of MediaCity as its anchor tenant)

Secondly, Channel 4 does not have the same function in the market as the commercially owned and commercially funded PSBs, ITV and Channel 5, or the publicly owned and publicly funded BBC. It has a unique model, which is uniquely placed to keep the PSB ecosystem and wider UK audiovisual sector fighting fit for the future – as we set out in Part 4. While consolidation is successful for some commercial broadcasters – as in the case of ViacomCBS and

[42] The Telegraph, *Broadcasters to channel all into a one-stop streaming player to keep up with US giants*, 2021

Channel 5, that does not mean that it is the right answer in the case of Channel 4. In fact, the existing fulfilment of the Government's stated policy objectives might be weakened by a change in incentives and remit flowing from a change in Channel 4's ownership. The independent sector is able to deliver these benefits because of the size of Channel 4's external commissioning, with no conflicting incentives to favour in-house studios, and its support for access to IP through the terms of trade.

It is logical and inevitable that Channel 4 would have different incentives outside of public ownership. Channel 4 and the BBC exist to deliver their PSB remits. The legitimate but different incentives on commercially owned PSBs mean that they only choose to retain their PSB licence and remit to the extent that it delivers greater commercial value than handing it back. This is a feature of the commercial PSB licence renewal negotiations.

3.2 A Channel 4 with different incentives and remit carries risks for the UK Audiovisual sector

Section Summary

- It is likely that changing Channel 4's ownership would mean an erosion of its public service remit, possibly through terms of sale and in any case over the longer term given its new commercial incentives
- This would result in a reduction and change in investment in independent production over time, both directly from Channel 4 and in the longer term from all broadcasters as the overall system is weakened
- The UK's global competitiveness would be diminished, with the UK's surviving independents shifting their focus to large international markets

If Channel 4 was privatised, it is likely that its PSB remit would also change – either via negotiated terms as part of the sale (as this would affect its value) or over the longer term because it would have new commercial incentives as a profit-maximising organisation to seek to dilute its remit, including commitments to independent production in the Nations and Regions. Again, this is a logical consequence and legitimate for a commercially owned company – but such incentives would clash with the public policy aims and in particular delivery of Channel 4's more qualitative public purposes.

A new Channel 4 with commercial incentives and a diluted PSB remit would carry the following risks:

Reduction and change in investment in independent production over time

Given the trends in commissioning across the commercial PSBs set out in Part 2, a commercially owned Channel 4 is likely have the incentives to reduce the amount of hours and spend with independent producers, in order to keep more production and IP for secondary exploitation in-house. This is likely to especially affect start-ups and SMEs, and independent producers across the Nations and Regions, as the former can require more support and the latter lose out to the economies of scale and network effects that pull production towards London and South England. Major SVOD and Studio investments are welcome but different – they are concentrated around SE England. This is simply commercial logic.

The DCMS consultation suggests that broadcasters retaining IP is necessary to compete with global media companies. However, this misunderstands how the UK system currently works and thrives. SVOD do not retain IP by commissioning from a single studio (e.g. ITV Studios). They commission from a multitude of producers because that is the route to greater efficiency, competitiveness and innovation – as the Conservative Government demonstrated when it envisioned Channel 4 and the related independent production quota. Moreover, the current system means that the UK independent producers retain IP for secondary exploitation and have every incentive to maximise its exploitation as that is the lifeblood of the business – to make up the initial production budget, to access finance and to grow.

The consultation suggests that obligations could be put in place as part of a sale. However, it seems unlikely that regulation could impose the location of a private company's headquarters or studios over time (as seen with the sale of Cadbury to Kraft). Channel 4's voluntary out of London commitment of 50 per cent is unlikely to be maintained when subjected to a purely commercial logic and would drop back to the level of the quota (35 per cent). If the Government sought to mandate a higher quota this seems likely to affect the sale value and, as noted above, the new Channel 4 would have every incentive to view this as a compliance exercise rather than a public good (ITV *Nightscreen* is produced in Birmingham and provides information on upcoming ITV shows overnight), to keep as much as possible in-house, and to seek to reduce the quota over time, especially around licence renewals.

Depending on who the buyer is, we could also see a change in the substance of original content. It would be possible to produce original content that nods to the UK but where total success across its interests in global markets is paramount. A new owner may also choose to draw on a catalogue of existing content to a greater extent, instead of commissioning (internally or externally), again with implications for the overall health of the UK sector.

We could also see a weakening of the terms of trade, which would likely create a domino effect since the commercially owned PSBs, especially ITV, question their relevance in today's market. As shown in Part 2 however, the terms of trade are more important than ever for the health of the UK independent sector and wider audiovisual ecosystem.

It would also be up to any future owner to decide if, and when, to hand back its PSB licence if it felt the costs outweighed the benefits overall.

Innovation begins to stagnate, including at in-house studios

Depending on who a future owner is, reduced competition and reduced variety in the UK broadcaster ecosystem, including in terms of incentives and remits, could gradually lead to lower total content investment and more homogenous output across UK broadcasters over time. A decline in the independent production sector would deprive in-house studios of their source of creative renewal through acquisition and investment in indies. This creates the risk of production for UK broadcasters focusing on low and mid-range content for local audiences, while the high end is global and doesn't genuinely reflect values, culture and voices from across the UK.

The UK's global competitiveness fades

A reduction in external commissioning budgets and loss in access to IP in the UK would likely lead to large independents shifting the focus of their competition to large markets, notably the USA and growing markets in Asia, where the upfront rewards are much greater. Instead of the dynamic cycle of independents from start-up to growth, consolidation, acquisition and start-up, we can expect a gradual return to the divided and sluggish sector of pre-2003 with a few large studios dominated by the broadcasters or service supply to global players, and a long tail of small independents that 'work for hire' without being able to grow.

The additional risk here is that the UK gradually loses its attractiveness as an audiovisual hub famed for its local creativity and skills, leaving it focused on industrial service provision and exposed to international competition in tax breaks, with global SVOD and studios moving around accordingly.

Alongside gradual falls in inward investment, we can expect a decline in programme and format exports to the rest of the world. This would be a lost opportunity to boost the UK's profile on the world stage as an open and confident nation, at a time when other states are investing in media to extend their soft power.

As a proxy for the overall effect on the UK audiovisual sector, we can look at the GVA contributed by the sector before the introduction of the terms of trade in 2003. We might assume a gradual return towards this state, instead of the steady growth that has been seen. The 'Film, TV, video, radio and photography' sector had a GVA of £9 billion in 2001. In 2019, the 'Film, TV and Music' sector had a GVA of £21.7 billion (n.b. the methodology was changed in 2014).[43]

3.3 UK Government has other levers to support UK content – but they are less effective and mean more 'red tape' and public spending

Section Summary

- Alternative public interventions used in other countries require public spending and are less effective than Channel 4 at delivering public value
- The French market has quotas, regulated windowing and industry levies – but it does not have an independent production sector comparable to the UK, their production companies have not been able to scale in the same way
- In Canada, terms of trade were removed, resulting a market that is characterised by many small independent producers making local Canadian content and a large service industry producing programmes for the USA market that do not reflect Canada – in 2020, the BTLR panel recommended that terms of trade be reintroduced

In the absence of a publicly owned Channel 4, Government and Ofcom could consider other public interventions to try to arrest creative and economic decline. However, international comparators show us that these are considerably less effective at delivering DCMS's policy objectives, are more intrusive instead of leaving flexibility to industry and imply a much greater administrative burden and cost ('red tape'). They also risk encouraging local content to become niche, with lower consumption by UK audiences.

The French production market is characterised by a mix of output quotas, regulated windowing and industry levies to promote French language production, as well as collective agreements. This has secured plurality and a minimum share of European and original French language productions for audiences. However, it has not supported a dynamic production sector comparable to the UK market, with a range of independents that are able to grow domestically and internationally. Instead, it is characterised by a very high number of independents (over 4,500), of which 72 per cent are very small enterprises with under €100,000 annual turnover and many set up for a specific project only. The GVA for the sector is slightly below that of the wider economy.[44]

In Canada, the regulator CRTC reduced the Canadian local content quota in terms of hours (while maintaining spend) as well as allowing broadcasters to opt out of terms of trade. It was hoped that this would encourage broadcasters to focus on fewer, higher quality productions with international potential. But the producer association warned that without the terms of trade, broadcasters could dictate terms for secondary rights, especially to smaller producers. Considering market development over time, we do not see the successes of the UK system and the risks to Canadian content seem to be growing. The investment by Canadian television had an average annual growth rate from 2009/2010 to 2018/2019 of 3.9 per cent, broadcaster in-house production grew 1.3 per cent, but foreign location and service production grew 13.9 per cent, reaching 52 per cent of the market.[45] 85 per cent of foreign investment in production in Canada is in foreign location and service provision. 78 per cent of foreign location and service

[43] DCMS, *Sectors Economic Estimates*, 2019
[44] CSA, *Étude sur le tissu économique du secteur de la production audiovisuelle - 5e édition*, 2021
[45] CMPA, *Profile 2019- Economic Report on the Screen-Based Media Production Industry in Canada*, 2020

projects by country of copyright are from the USA.[46] Serious concerns are expressed that the programme market is characterised by a large share of small independent producers making local Canadian content and reliant on content funds, and a large service industry producing programmes for the USA that are made in Canada but do not reflect Canada in their content. This is a particular risk for markets with a shared English language with the USA. In 2020, the Broadcasting and Telecommunications Legislative Review (BTLR) panel recommended that terms of trade be reintroduced.

Another option is to rely on general taxation to set up a local content fund, as in Australia. Again, that does not seem preferable to the current UK approach that drives entrepreneurialism in both the independent production sector and at broadcaster studios. Unless they are focussed on very specific problems, such as high-end content being made overseas, public support mechanisms risk replacing investment that would have happened anyway, or only add to net investment by pursuing a restrictive set of cultural criteria and at quite a high administrative cost. In that case, they risk creating a niche and protected content creation sector of predominantly small producers that do not grow domestically or internationally.

In contrast, Channel 4 is a vital and proven mechanism for delivering the public policy objectives, and at zero cost to the UK taxpayer. The current incentives flowing from public ownership and the current remit are what will deliver DCMS's stated aims for Channel 4 and the PSB ecosystem in the future: serving audiences better in a fast-evolving media sector; being best placed to innovate and grow; investing in new technology and programming; diversifying its income; taking advantage of strategic partnerships; commissioning more content; providing more jobs; and – through independents – accessing capital and international markets.

We explore further what Channel 4 can do in the future in Part 4.

[46] CMPA, Ibid.

Channel 4 can make UK TV fighting fit for the future, at zero cost to the UK taxpayer

4 Channel 4 can make UK TV fighting fit for the future, at zero cost to the UK taxpayer

In Part 3, we looked at the different risks arising from a change in ownership of Channel 4. It is important to stress the risk of disrupting the health and sustainability of the overall UK audiovisual ecosystem by unravelling a unique component of the PSB system. All elements are complementary and necessary for maintaining the health of the independent production sector and for delivering the Government's major policy objectives of Innovation, Build Back Better, Levelling Up and Global Britain. The Government is willing to invest to deliver these goals, which has been welcomed. But Channel 4 today is one of the most effective instruments for supporting growth in the audiovisual sector, delivering nearly £1 billion to the UK economy every year and supporting more than 10,000 jobs – all at zero cost to the taxpayer.[47]

In this Part, we discuss how Channel 4, with its current remit and incentives, is vital to the future success of the UK Government's policy objectives for the audiovisual sector:

- **Innovation Strategy** – plans to deliver a global innovation hub in the UK
- **Build Back Better** – plans to stimulate economic growth following the pandemic by focusing on investment in infrastructure, skills and innovation
- **Levelling Up** – a commitment to focus investment and improve the economies of the UK's regions and nations, and decentralise power away from London
- **Global Britain** – promoting British industry on the international stage by increasing exports and developing the UK's soft power

4.1 Channel 4's role as a 'sandbox' for independent production can drive innovation, R&D and risk taking

Section Summary

- Channel 4's ability to take greater risks than commercially owned PSBs drives innovation in the independent production sector
- This results in a greater variety of programmes – including promoting underrepresented voices from across the UK, experimentation with new technologies and formats and providing a platform for up-and-coming talent from across the UK
- These programmes promote the UK as global leader that is innovative and forward looking

Innovation is at the core of the UK Government's strategy and policy ambitions – as stated in the Innovation Strategy, launched July 2021 'Our vision is for the UK to be a global hub for innovation'. This includes emphasis on innovation in the creative sectors, recognising that they are a significant driver of innovation across the country. 'The design and creative sectors are instrumental elements of the innovation system too and form part of that rich mix which needs to be in place to achieve our innovation ambitions'.[48] As stated by Dr Jeremy Silver, CEO of Digital Catapult, 'The coming together of the creative industries with the technology sector still has a huge potential for the UK

[47] EY, *Channel 4's contribution to the UK*, 2021

[48] BEIS, *UK Innovation Strategy: Leading the future by creating it*, 2021

economy… the time is now to accelerate innovation in the creative industries and boost R&D to fuel the industries' recovery from Covid'.[49]

A key feature of the UK Government over the last decade has been implementation of small-scale public interventions to drive innovation and support risk-taking in the private sector. The UK Government has received international acclaim for pioneering implementation of 'sandboxes' to deliver this goal. Sandboxes are testing grounds where companies can launch new products and services in controlled environments, either through relaxed regulatory requirements or enhanced support to bring products and services to market.

A notable example is the Financial Conduct Authority's Regulatory Sandbox, which launched in 2016 as the world's first Fintech sandbox. In the following six years, it has supported over 100 companies bring innovative new products to market without consumer harm and has been emulated in over 60 countries worldwide. The UK Government has supported the sandbox model for driving public sector innovation and growth, with the Economic Secretary to the Treasury stating, 'It was this country that launched the first Regulatory Sandbox to catapult exciting and innovative new products to market'.[50] The UK Government has recently launched sandboxes across multiple industries, including sandboxes dedicated to age verification technology for retail, energy innovation and legal innovation.

Accounting for 51 per cent of PSB commissioning spend in 2019,[51] independent production companies are responsible for a significant proportion of the UK's creative TV output in terms of programme and format development and innovation. This drives the UK's global competitiveness and the UK's soft power around the world.

Whilst not a *regulatory* sandbox, Channel 4 delivers many of the same outcomes for the independent production sector, by supporting innovation and experimentation that would be otherwise unable to happen through access to funding and enhanced production support. In many ways, Channel 4 has trailblazed the sandbox model 35 years before it was coined as a term – by providing small scale public support for the private sector in return for private sector experimentation.

Channel 4 operates as a seed fund that is willing to take risks that commercially owned broadcasters cannot. When these risks pay-off, this creates new commercial opportunities that benefit everyone across the TV ecosystem – by inspiring other production companies and broadcasters, supporting international exports, and providing a range of high quality and diverse programmes for audiences. Channel 4's commercial funding model enables them to play this important role for the industry without any cost to the taxpayer. It is a very successful and sustainable model which would be challenging to replace without significant public investment.

Channel 4's value as a sandbox for the independent production sector and wider TV ecosystem is enhanced because of its unique remit. Whilst all PSBs are required to provide high quality, varied and balanced content that caters to different audiences, Channel 4's remit requires it to support the development of creative talent and to provide programmes that are distinctive, innovative, appeal to the tastes and interests of a diverse society. As well as delivering on its own remit, Channel 4's willingness to take more creative risk and use innovative new technologies provides competition to the other PSBs and spurs them on to take more risks themselves.

As we look forwards, this section explores how Channel 4's role as a sandbox is key to the future development and export of innovative and unique programmes, including diverse approaches to subject matter, experimentation with new formats and new technology and nurturing of new talent from across the UK.

[49] https://www.thecreativeindustries.co.uk/site-content/report-identifies-in-demand-createch-skills-forecasts-investment-growth
[50] Ron Kalifa, *Review of UK FinTech*, 2021
[51] Oliver & Ohlbaum Producers Database– proprietary internal resource

Diverse approach to subject matter

Channel 4 has a long-standing reputation for commissioning shows that tackle subject matters that are too edgy for other broadcasters. As stated by Andrew Mitchell, Conservative MP for Sutton Coldfield, 'Channel 4 caters for minority tastes and diversity in modern Britain… It aids inclusivity'.[52]

By taking risks to commission programmes that feature challenging subject matters and promote underrepresented groups, Channel 4 puts important issues at the centre of the public eye and helps to normalise subjects that were previously considered controversial. This then promotes the UK on the global stage as a forward-thinking country that is creatively and culturally ahead of the curve. For example:

- Red Production Company's *Queer as Folk*, commissioned by Channel 4 in 1999, chronicles the lives of three gay men living in Manchester and was the first drama to focus on the LGBT community in the UK – a position also held by the following USA remake, which was first drama to focus on the LGBT community in the USA. This shows the important role Channel 4 played in normalising the depiction of people from the LGBT community on screen in the UK and worldwide. Red Production Company's relationship with Channel 4 has continued with 2021's smash hit, *It's a Sin* (see below).

- *The Undateables* was commissioned by Channel 4 in 2012 and has since run for 11 seasons and 53 episodes, and has been sold in the USA, Australia and France. Together with Channel 4's acquisition of the Paralympic rights, *The Undateables* has been credited with pushing forward how people with disability are represented on screen. Additionally, Channel 4's *The Last Leg* has 'has taken mainstream viewers to dark and delightfully surprising places that only disability humour can go'.[53] Originally devised as a late-night Paralympics discussion show, it is presented by Adam Hills and features Alex Brooker, a comedian who came through Channel 4's 2010 *Half Million Quid Talent Search*.

Case Study 1: It's a Sin, Red Production Company

It's a Sin is a five-part drama that aired on Channel 4 in January 2021 and showcased five friends' struggles during the UK's HIV/AIDS crisis in the 1980s and 1990s. Spanning a decade of their lives, the programme starts with the characters optimistically moving to London to find work and befriending each other, before being plunged into the horrors of the disease. Despite being set primarily in London, it was filmed in Manchester, Liverpool, Bolton and Wales.

The series was written by Welsh screenwriter Russel T Davies and is based on the experiences he shared with his friends. Portraying raw scenes of death and misery, *It's a Sin* was a 'hard sell' initially, according to Davies; 'it went round various channels and was turned down, at least twice if not three times'.[54] But Channel 4, led by its Commissioning Editor of Drama, Lee Mason, fought to commission it – a classic example of Channel 4 taking a risk where other commissioners would not.

In our interview with Sarah Doole, CEO of Red Production Company, she lauded Channel 4 for its willingness to 'take very focused hard-hitting issues that other broadcasters shy away from'. She described seeing how much *It's a Sin* touched the British public and its astonishing impact as 'an extraordinary feeling'. The show has been credited for causing a surge in HIV testing and for raising awareness about the disease more generally.[55]

[52] Andrew Mitchell, Parliament debate on *Channel 4: Privatisation*, 2021
[53] https://www.bbc.co.uk/news/uk-19536138
[54] PinkNews, *Russell T Davies' seminal AIDS drama It's a Sin was almost never made after being turned down by TV bosses*, 2021
[55] https://www.channel4.com/news/hiv-testing-rises-as-its-a-sin-become-c4s-most-watched-drama

Case Study 2: The Paralympics

When Channel 4 acquired the rights to the London 2012 Paralympics, it was determined to challenge stereotypes and champion minorities by bringing disability into the mainstream.

British swimmer and gold medal winner Ellie Cole remarked that 'Channel 4 elevated us from unknowns to equals in the sporting world. To actually be recognised for being elite, professional and "real" athletes is something Channel 4 contributed to in a big way'.[56]

Channel 4 also ran a recruitment scheme to ensure 50 per cent of on-screen presenters had a disability. International Paralympic Committee (IPC) President Andrew Parsons said, 'With London 2012, Channel 4 ripped up the rulebook… By the Rio 2016 Paralympic Games, every single broadcaster had disabled people in front of and behind the cameras'.[57]

Channel 4's Rio 2016 coverage reaching 28 million viewers, nearly half of the British population, as they went bigger to cut through the time difference. Channel 4 assembled what was then the largest ever team of presenters with a disability on British television and trained 20 production staff with disabilities.

For Tokyo 2020, Channel 4 has gone further with the most diverse ever on-screen talent line-up – over 70 per cent disabled, and more disabled senior production roles than ever before. Presenters include Peter Norfolk, British Wheelchair Tennis gold medallist at Athens 2004 and Beijing 2008 and flagbearer for ParalympicsGB at the London 2012 opening ceremony as well as winning multiple Grand Slam and Super Series titles, and Alice Tai, British Paralympic Swimmer and gold medal winner at Rio 2016 in addition to the European and World Championships and the Commonwealth Games.

Experimentation with new formats and new technology

Channel 4 takes risks with commissioning experimental and innovative new formats. Channel 4 took the technology of fixed-rig filming from *Big Brother* and used it to transform factual by commissioning *24 Hours in A&E, Educating Yorkshire* and *One Born Every Minute* – the camera technology allows programme makers to capture intimate and natural behaviour without the presence of a crew, which might inhibit. Most recently, Channel 4's promotion of technology innovation could be seen on *The Circle* in 2018 (see below).

These unique programmes advance the use of technology in British TV and can result in format exports that are distinct and stand out in a global format market that is dominated by formulaic game shows and dating shows. They are just an illustration of the type of innovation that Channel 4 can drive for the UK audiovisual sector in the future, provided its current remit and incentives remain.

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[56] https://www.paralympic.org/news/report-reveals-channel-4-revolutionising-disability-broadcast-landscape
[57] Ibid.

Case Study 3: The Circle, Studio Lambert

The Circle is a reality game show where contestants interact via a specially designed voice-activated app called The Circle. Contestants pretend to be whoever they want to be in order to win over the other players. *The Circle* taps into the social zeitgeist by showing the best and worst of what social media can offer.

The Circle has been praised for is pioneering format and use of technology, winning the Best Innovative Use of Technology in Storytelling at the 2019 Broadcast Tech Innovation Awards. The format has particularly struck a chord with younger generations – it became Channel 4's 'youngest profiling' show since 2012, with around half of its audience in the 16–34 age bracket.[58]

Two series of *The Circle* aired on Channel 4 before Netflix acquired the rights to produce French, Brazilian and US versions of the format. Netflix have taken over the show from season 4, further increasing the programme's global reach.

Nurturing new talent from across the UK

Throughout its history, Channel 4 has delivered on its requirement to nurture creative talent by ensuring that people from a wide range of backgrounds can pursue successful careers in the media industry. This is important for developing skills across the Nations and Regions (discussed further in Section 4.3 below) and for improving diversity on and off-screen. Channel 4 aims to lead as 'a driving force and pioneer in the industry on inclusion and diversity',[59] recognising that diversity of thought allows all audiences to recognise themselves and generates richer ideas with a creative and competitive edge.

Case Study 4: Jessica Barden, British actor

Jessica Barden is a young British actor from Yorkshire. While she had acted in some small, mostly unnamed roles previously, Jessica Barden's first big break came when she was commissioned in the Channel 4 and Netflix co-production *The End of the F***ing World*. The nihilistic coming-of-age comedy-drama stars Jessica Barden as Alyssa, who seeks to escape her abusive stepfather with her classmate-turned-lover, a self-confessed psychopath whose real plan is to kill her.

The show was a huge success in international markets, described as a 'pitch-black, eight-episode comedy gem of a UK import' by The Hollywood Reporter[1]. Series 2 won the British Academy Television Award for Best Drama Series in 2020.

Barden has reflected on her humble beginnings in Yorkshire; 'I'm not educated. I've only received compulsory education. And I'm a working-class female. I'm underestimated all the time'.[60] Following her success in *The End of the F***ing World,* Jessica Barden has been cast in an upcoming Netflix thriller, *Pieces of Her*. This is an example of how Channel 4 provides opportunities for up-and-coming talent from diverse communities across the regions, which they can use as a springboard for further success.

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[58] Broadcast, *Netflix to remake The Circle*, 2018

[59] https://www.channel4.com/corporate/about-4/operating-responsibly/diversity

[60] https://www.independent.co.uk/arts-entertainment/tv/features/jessica-barden-interview-the-end-of-the-fucking-world-netflix-channel-4-alyssa-a9178931.html

Screenwriter and playwright James Graham gave the example of Michaela Coel in saying of Channel 4, 'The value of a PSB that doesn't require immediate success or proof of concept is that you get to incubate and train talent you give them time to nurture, find their voice'.[61]

Case Study 5: Michaela Coel, British actor

Recognised by Time magazine as one of their 100 Most Influential People in the world in 2020, Michaela Coel is a British actor and writer. Her breakout role came as the lead actor and writer of Channel 4's *Chewing Gum* (2015). The show follows the endeavours of Londoner Tracey Gordon, a naïve and highly religious twenty-something who embarks on a journey of self-discovery.

There was a moment in the development of Chewing Gum when a co-writer was almost brought in. Channel 4 Head of Comedy, Phil Clarke, got hold of the script and insisted that Michaela Coel write the show alone to give her the space and freedom to tell her story. Michaela Coel has said that Channel 4's decision to commission *Chewing Gum* was the sort of 'risk' she wishes the industry would take more often.[62]

In 2020, Michaela Coel wrote and starred in the BBC's *I May Destroy You,* for which she won four BAFTAs and received nine Emmy nominations. It was picked by Barak Obama is one of his favourite TV shows of 2020.

Michaela Coel's career is going from strength to strength. She has been cast in Marvel's *Black Panther: Wakanda Forever*, alongside Daniel Kaluuya and Letita Wright, two other British actors who launched their careers with Channel 4 shows, *Skins* and *Top Boy* respectively. There are rumours Michaela is favourite to be the next Doctor Who – with odds currently 4/1 on Betfair.[63]

Channel 4 provides opportunities to up and coming talent from diverse backgrounds that commercially driven broadcasters may not take an initial risk on in the early stages of their careers. Many of these talents go on to other more prominent roles on Channel 4, other UK channels and in international TV and film – including some of the UK's most successful actors, screenwriters, format creators and directors, raising the profile of the UK as a dynamic, creative nation on the global stage.

[61] James Graham, *Edinburgh Television Festival*, 2021

[62] https://www.theguardian.com/lifeandstyle/2018/aug/11/michaela-coel-trying-to-be-someone-else-failing

[63] https://betting.betfair.com/specials/other/next-doctor-who-odds-michaela-coel-favourite-to-succeed-jodie-whittaker-230621-204.html

Case Study 6: Steve McQueen, British Filmmaker

When Turner Prize-winning artist (1999) Steve McQueen wanted to move into cinema, he was backed by Channel 4/ Film4.

With Hunger (2008), Channel 4 was supporting a significant British talent but at some risk since McQueen had no track record in feature length filmmaking, plus the hard-hitting subject matter. The film went on to win a BAFTA and the Camera d'Or at Cannes Film Festival. Film4 also backed McQueen's second major release (Shame, 2011), starring Carey Mulligan and Michael Fassbender.

For McQueen's next project, 12 Years a Slave (2013), Film4 was an associate producer, providing major development support over a period of years to bring the project to production. It went on to win three Oscars, Best Picture, Best Adapted Screenplay and Best Supporting Actress. It won the Golden Globe Award for Best Motion Picture – Drama. The film also won the BAFTA for Best Film. British actor Chiwetel Ejiofor received the BAFTA for Best Actor and was nominee at the Oscars and Golden Globes.

Most recently, Steve McQueen has made series of films for television, with Small Axe for the BBC and Amazon Prime. British actors John Boyega and Malachi Kirby went on to win Best Supporting Actor awards at the Golden Globes and at BAFTA respectively. The series garnered a raft of other nominations in the UK and the US.

Case Study 7: Channel 4's impact at the 2021 Oscars

The 2021 Oscars was notable for having eight British actors nominated across the Best Actor, Best Actress, and Best Supporting categories. It is widely acknowledged that Channel 4 played an important role in the early stages of four of their careers:

- **Riz Ahmad** – nominated for Best Actor for his role in the *Sound of Metal*. Launched his career with his role in Channel 4's *Britz*, a drama film exploring the life of British Pakistanis living in Bradford, West Yorkshire.

- **Daniel Kaluuya** – winner of Best Supporting Actor for his role in *Judas and the Black Messiah*. He launched his career in the E4 show *Skins*, a teen comedy-drama that follows the lives of a group of teenagers in Bristol

- **Sacha Baron Cohen** – nominated for Best Supporting Actor for his role in *The Trial of the Chicago 7*. Launched his career with Channel 4's *The 11 O'clock Show*, along with co-stars Ricky Gervais and Mackenzie Crook

- **Olivia Colman** – nominated for Best Supporting Actress for her role in *The Father* (a Film4 production) having previously won Best Actress for *The Favourite* (another Film4 production) at the 2019 Oscars. She launched her career with her role in Channel 4's *Peep Show*, the award-winning British sitcom that innovated with point-of-view camera work and liberal use of voiceovers.

Channel 4's impact on the awards did not stop there – Film4's *The Father* was nominated for 6 Oscars, with Anthony Hopkins winning the Best Actor category. As of 2021, Film4 films have produced 143 Oscar nominations, with 37 wins. This provides a prime example of how Channel 4 has delivered on its remit by nurturing and taking a risk on new talent – in this case resulting in British actors reaching the pinnacle of the industry, promoting Britain on a global stage.

Long term commitment to new programmes

As well as taking commissioning risks, we heard from the interviews with independent production companies that Channel 4 is willing to give programmes longer to develop than other broadcasters. They were credited with recognising that successful formats take time to develop and using a wider range of metrics to assess programme performance than just overall audience views, such as reach with younger audiences.

Case Study 8: First Dates, Twenty Twenty Productions

First Dates is a reality TV show centred on a restaurant whose clientele are made up of single people on blind dates. Fronted by maître d' Fred Sirieix, the show pairs up couples across all ages and personalities, and viewers watch the whole encounter via rigged cameras dotted around the restaurant. Popular across all demographics, the programme first aired in 2013 and its 16th series recently broadcast at the start of this year. Five series of a hotel-based spin-off have been broadcast, and the restaurant format has featured *Celebrity* and *Teen* series.

However, *First Dates* took time to grow its success. In our interview with Leanne Klein, MD Twenty Twenty, she praised Channel 4's commitment to First Dates during the early stages of the show, 'they had faith in the show, and the patience. They didn't mind that the ratings weren't huge to begin with, they understood that formats often take time to find their feet'. The programme now regularly captures around two million viewers per episode.

First Dates has been produced globally in 24 territories for a total of 99 series and 3,554 episodes, and is testament to the exportability and universal appeal of British formats. However, the format may not have had the chance to find global success without the public service incentives and remit at Channel 4, which meant they were willing to give it the chance to break through.

Channel 4 has successfully powered innovation and risk-taking in the production sector for 40 years. Government can be confident that Channel 4 will continue to deliver this under its current ownership model. And under public ownership, Government retains the ability to enhance Channel 4's remit to deliver further or different public benefits over time, as society and the economy evolve.

4.2 Channel 4 can be used to deliver economic growth in the audiovisual sector, allowing it to build back better

Section Summary

- To support recovery from the pandemic, the UK Government has announced funding for the UK creative industries through various means that total over £2 billion
- Channel 4 has proved it is one of the most effective instruments for delivering economic growth in the audiovisual sector – it delivers nearly £1 billion to the UK economy every year, supports 10,000 jobs and works with small production companies more than any other broadcaster
- Going forward, Channel 4 under its current remit will be vital for driving recovery and growth for the independent production sector

The UK Government launched 'Build Back Better' in March 2021 to set out its plans for delivering economic growth to recover from the Covid-19 pandemic, with Boris Johnson summarising 'Our mission is to unleash the potential of our whole country and restore the energy and confidence of the Victorians themselves. Just as the Government has done whatever it takes to support lives and livelihoods throughout the Covid crisis, so we will turn that same ambition and resolve to the task of our recovery'.[64]

Build Back Better includes commitments on the creative industries and audiovisual sector, recognising that they are a key driver of innovation and growth. 'The digital and creative industry sectors are a major success story for the UK, and a critical driver of innovation and growth. We will work to ensure that these sectors can flourish by nurturing a safe, fair and open digital economy, growing more creative businesses around the country'.[65] As stated by Caroline Dinenage, Minister for Culture, 'As we build back better from the pandemic, our creative industries will play a huge role in helping the nation to recover - creating jobs, generating investment and wowing audiences with world-class content'.[66]

The UK Government has announced multiple public funding schemes to promote economic growth for the creative industries and to support Build Back Better, including:

- The UK Global Screen Fund, a £7 million fund supporting the development of screen content in the UK to export to markets around the world
- A six-month extension of the £500 million Film and Production Restart Scheme[67]
- £150 million investment in creative clusters, technology and skills as part of the Creative Industries Sector Deal
- £1.7 billion of funding to 45 arms-length bodies that support UK cultural and sporting excellence

However, Channel 4 is one of the most effective public policy instruments for supporting growth in the audiovisual sector. Channel 4 states that it has directly invested £12 billion in the independent production sector in its lifetime.[68] It delivers nearly £1 billion to the UK economy every year and supports more than 10,000 jobs.[69] It is a self-sustaining fund that can continue to provide investment in the independent production sector due to its commercially funded model – all at zero cost to the taxpayer. This is in contrast to the other governmental interventions listed above which (while welcome) must be paid for with public funds.

The pandemic has had a significant impact on the UK's six million small businesses, which account for over 99 per cent of all businesses in the UK. Covid-19 will cost SMEs an estimated £126.6 billion and 61 per cent of small business owners have had serious financial concerns at some stage of the pandemic.[70] As discussed in Part 2, Channel 4 more frequently commissions from small production companies than any other PSB, particularly the commercial PSBs. It commissioned from more than double the number of small production companies as ITV in 2019. Channel 4's support and commissioning spend for these small production companies is vital as they navigate out of the pandemic. This supports the Department for International Trade's goal for high-potential SMEs to export and grow in priority markets.

[64] HMT, *Build Back Better: our plan for growth*, 2021
[65] HMT, Ibid.
[66] https://www.thecreativeindustries.co.uk/site-content/report-identifies-in-demand-createch-skills-forecasts-investment-growth
[67] House of Commons Library, *DCMS spending and support during the Covid-19 recovery*, 2021
[68] https://twitter.com/C4Press/status/1407651378697224196
[69] EY, *Channel 4's contribution to the UK*, 2021
[70] Simply Business Report, *The impact of Covid-19 on UK small business*, 2021

4.3 Channel 4 can push levelling up, driving growth in the UK's Nations and Regions

Section Summary

- Channel 4's commitment to the UK's Nations & Regions is crucial for delivering Levelling Up in the audiovisual sector
- Channel 4's new headquarters to Leeds is forecast to deliver £1 billion and 1,200 jobs over 10 years and its voluntary made-out-of-London quota increase will provide up to an additional £250 million investment into regional production companies by 2023
- Channel 4's regional focus produces distinctive content that reflects the rich diversity of British culture and subcultures – when exported to foreign markets, this shows the strength and diversity of the UK outside of London to the rest of the world

Elected in 2019 with the mandate to 'level up every part of the UK', economic growth in the UK's Nations and Regions is a cornerstone of Government's strategy and policy ambitions.[71] In July 2021, the Prime Minister articulated this vision – 'Imagine if we could close the gap between London and the rest of the UK's great cities, that would increase the national GDP by tens of billions, the opportunities for millions of people'.[72]

This was echoed by Oliver Dowden, Secretary of State for DCMS, who stated 'one of our biggest priorities is helping to transform communities who haven't felt the benefits of the change we have seen in recent years. So we can spread prosperity across all the UK, and create meaningful career paths that don't simply involve moving to our capital'.[73]

The creative industries provide multiple benefits to people across the country – through economic growth, which has outstripped overall UK growth over the past five years (see Part 2) and by enriching the culture and sense of pride amongst communities across the country. Caroline Norbury MBE, Chief Executive of Creative Industries Federation & Creative England underlined, 'Our creative sector is an economic powerhouse. The creative industries bring people into our towns and cities. They are intrinsic to building atmosphere, to a sense of place and civic pride, and investment into creativity is critical if we want to level-up the country'.[74]

If we consider the available policy levers to spread the benefits of the economic, social and cultural audiovisual industries out from London, the only broadcasters that are large enough to have an impact, and that may be directed to re-channel their commissioning and operational spend, are the public service broadcasters.

Among the PSBs, Channel 4 is unique in dedicating 100 per cent of its commissioning spend to independent producers. It invests in a higher share of SMEs and has the public service incentives to prioritise investment in the Nations & Regions as a strategic objective and generator of public value instead of a compliance exercise and regulatory burden that it seeks to water down over time. Channel 4 is also the only lever that can provide creative competition to the BBC in its own efforts to decentralise operations and production, so that both can drive and inspire the other in delivery of their public remits. As we have seen, ITV aims to keep a significant proportion of commissioning in-house, while Channel 5 has a much lower Nations & Regions quota at the moment, at ten per cent. Non-PSBs have no such obligation at all, which has resulted in SVODs focusing UK investment in London and the surrounding areas in the south of England. For example, in 2019 Netflix increased their investment in Shepperton

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[71] *The Conservative and Unionist Party Manifesto*, 2019
[72] Boris Johnson, *Levelling Up speech*, 2021
[73] Oliver Dowden, speech at the *Enders Media and Telecoms Conference*, 2020
[74] https://www.localgov.co.uk/Council-chiefs-call-on-Government-to-help-local-creative-industries/50886

Studios, Surrey;[75] Comcast-Sky announced plans to develop new studios in Hertfordshire;[76] and Disney agreed a long-term deal to move into Pinewood Studios, Buckinghamshire, for its UK productions.[77] Any buyer would have strong commercial incentives to minimise Nations and Regions investment as part of the terms of sale (which affects the value) and/or over the longer term.

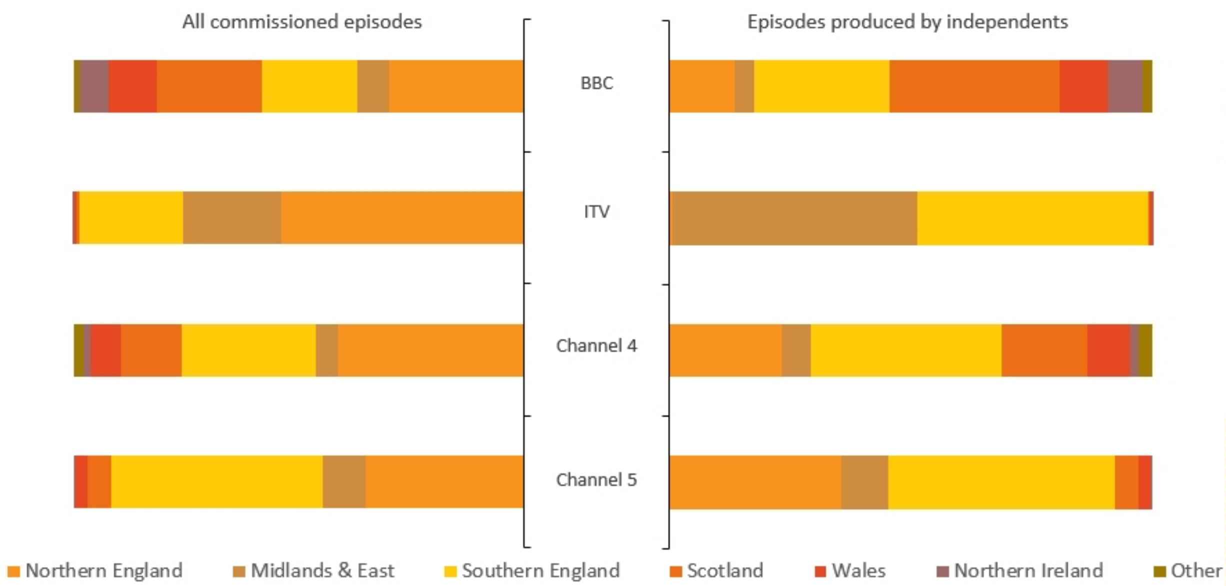
In the rest of this section, we focus on what Channel 4 can deliver for the future, provided its current incentives and remit are left intact.

Channel 4's commitment to increase commissioning spend in the N&R will benefit local production companies

Channel 4 has a long history of investing in production outside of London – with over £1.5 billion spent on content from the Nations and Regions in the last decade alone.[78] As mentioned, as part of its 2018 '4 All the UK' strategy, Channel 4 made a voluntary commitment to increase its Nations and Regions content spend, with up to an additional £250 million investment by 2023.

Channel 4's commissioning impact is particularly significant in Scotland, Wales and Northern Ireland (the Nations). As shown in Figure 18, in 2019 both the BBC and Channel 4 were important investors in productions from the Nations, whereas ITV's Nations spend totalled only 0.9 per cent, as a proportion of its total out-of-London spend. Although ITV usually achieves compliance with its out-of-London quota, this almost entirely though spend in the South and North of England, with much less variety than Channel 4 and the BBC. Channel 5's regional distribution is more varied, but its overall regional spend is significantly lower than the other PSBs, and they have a lower regional quota of 10 per cent.

Figure 18: Distribution of out-of-London episodes produced in each region, by broadcaster, 2019



Note: All commissioned episodes includes those from QIs, NQIs, external broadcaster-owned studios and in-house studios. Episodes produced by independents includes those from QIs and NQIs. Episodes are assigned as 'Other' when the regional production criteria were met, but not in a single macro-region. Excludes sport.
Source: Ofcom- Made outside London programme titles register 2019, Oliver & Ohlbaum analysis

[75] The Guardian, *Netflix strikes production deal with Shepperton Studios*, 2019
[76] https://corporate.comcast.com/press/releases/sky-to-develop-major-new-studio-at-elstree
[77] Screen Daily, *The Walt Disney Co signs long-term lease for entire Pinewood Studios site in the UK*, 2019
[78] Channel 4, response to *Small Screen: Big Debate– a five-year review of Public Service Broadcasting (2014-18)*, 2021

Today, Channel 4's investment into the Nations essentially provides a union dividend: 'I am incredibly proud that Channel 4 has its creative hub in my constituency, so I stand to support its work, the £200 million that it has spent on Scottish productions since 2007, its commitment to increase spend in Scotland, and its bringing on of young talent, which is incredibly important to the industry', stated Alison Thewliss, SNP MP for Glasgow Central.[79] Channel 4's Glasgow hub is home to commissioners across Daytime, Entertainment and Live Events, and Popular Factual, as well as training delivered in partnership with TRC, Skillset, Albert (environmental sustainability), the University of Stirling and BAFTA Scotland.

Through its commitments to invest in content from the Regions and Nations, Channel 4 is one of the Government's strongest mechanisms for delivering Levelling Up for the TV industry – and at zero cost for the taxpayer.

Channel 4's relocation to the UK's N&R will stimulate economic growth

As part of its '4 All the UK' strategy, Channel 4 relocated its National HQ to Leeds and they have created regional creative hubs in Bristol and Glasgow, as well as an advertising sales house in Manchester. It is estimated that Channel 4 will deliver £1 billion in Leeds over the next 10 years and create 1,200 jobs.[80] A range of commissioners from key genres including Daytime, Drama, Factual, Specialist Factual and Sport will be based in Leeds. Channel 4's Emerging Indie Fund, Indie Growth Fund and 4Studio, which commissions and produces content for social media, will also be based in the city. Channel 4 is working with ITN to see Channel 4 News regularly co-anchored from Leeds. Roger Marsh, Chief Executive of Leeds Enterprise Partnership said, 'We viewed it as Leeds breaking through a glass ceiling. It was an opportunity to galvanise the existing creative community, to see external production companies expand their businesses and to attract in new parts of that industry'.[81] Channel 4's relocation to Leeds has seen many other TV companies following their lead and opening offices there, including independent producers The Garden and Wise Owl/All3Media, Pact and Sky Studios, as well as the UK's first Centre of Screen Excellence. True North has expanded its post-production facilities. Caddick Group and Leeds City Council have transformed a derelict site into a state-of-the-art TV and film studio. Companies from other sectors are also attracted to Leeds, such as major European fintech firm Iwoca.

Channel 4's corporate commitment to the Nations and Regions has coincided with increased commitment from the BBC, which have released their 'BBC Across the UK' plan. This is a prime example of how competitive pressure between Channel 4 and the BBC results in positive economic and social outcomes, as they inspire each other.

Channel 4 can invest to support new and growing independents across the Nations and Regions

Channel 4 under its current remit and incentives can invest in independents. The Indie Growth Fund was launched in 2014 to provide access to funding for indies based in the UK along with strategic advice and guidance. It has a special focus on businesses in the Nations & Regions and on digital and diverse businesses. Since its inception, the fund has made 25 investments and there are now 15 companies in the portfolio, including: Candour Productions and Duck Soup based in Leeds; Five Mile Films in Bristol; Firecrest Films and Two Rivers Media in Glasgow; Yeti Media in Caernarfon. Alan Clements, MD of Two Rivers Media noted how Channel 4 taking a stake made a difference when attracting other investors: 'they provided the stamp of cultural approval – what Channel 4 represents: cutting-edge, entrepreneurial. Channel 4's stamp of approval was very important for Two Rivers'.

In 2020, Channel 4 launched a dedicated fund – the Emerging Indie Fund – to support independent production companies outside of London to break through the key stages of growth. Run annually, the fund provides financial

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[79] Alison Thewliss, Parliament debate on *Channel 4: Privatisation*, 2021
[80] Channel 4, *4 All the UK Case Studies*, 2020
[81] EY, *Channel 4's contribution to the UK*, 2021

assistance for slate development and mentoring and expert advice from across Channel 4 departments including commercial affairs and legal. It is hoped that, in turn, these independents will boost the creative impact of the Nations and Regions on the broadcast industry. Indies must have their sole or primary office or be establishing a new base in the Nations and Regions, have turnover under £3 million per annum, and demonstrate a slate of ideas with potential to be commissioned by Channel 4. In its first year the fund provided investment in two indies from Scotland, four from the North of England, two from Northern Ireland and one from Wales including Channel X Hopscotch in Glasgow; Chwarel in Criccieth, North Wales; Fired Up Films in County Down, Northern Ireland.

Case Study 9: Eleven, a British independent production company

Eleven was founded in 2006 by Jamie Campbell and Joel Wilson. Initially focusing on making documentary films, with *Candid Cameron* in 2006 and *Make Me A Virgin* in 2007, Eleven's first foray into scripted productions came thanks to Channel 4 deciding to take the initial risk, in the form of the Royal Television Society and BAFTA-nominated 2009 drama *Cast Offs* about a group of disabled people sent to a remote British island to take part in a reality TV series. Later dramas included *Mr Understood* for Sky Arts (2013) and drama thriller *Glue* for Channel 4 (2014).

Eleven was the first drama-producing company to receive investment via Channel 4's Indie Growth Fund in 2014. The investment helped the firm 'multiply our drama, comedy and factual output for all the broadcasters we work with at home and internationally', according to Wilson. 'Channel 4 has supported us creatively since the start of our careers – providing a foundation for us to build strong relationships with a range of other broadcasters'.[82] Subsequent productions included Sky Living's 2015 BAFTA-nominated supernatural drama *The Enfield Haunting*, which starred Timothy Spall and became the channel's most-watched programme since its takeover by Sky. Channel 4's *Gap Year* (2017) was the first UK drama series to shoot in China and was acquired by Hulu.

In 2019, Eleven delved into the international market, with Netflix's BAFTA-nominated comedy-drama *Sex Education*. The first series received 40 million streams, and a third series is due to debut in late 2021.[83] Sony Pictures Television recently acquired a majority stake in the company.[84]

Channel 4 can encourage production companies to regionalise programmes

Channel 4 has a strong track record of encouraging and supporting production companies to regionalise their programmes. This is much stronger than the commercially owned PSBs and multichannel broadcasters. For example, Channel 4 required that season 2 of *The Circle* (Studio Lambert, All3Media) moved production from London to Manchester. Channel 4 was also the driver for *George Clarke's Amazing Spaces* (Plum Pictures, Hat Trick Productions) moving to Bristol. Now *24 Hours in A&E* is set to move hospitals from London to the Queen's Medical Centre, Nottingham, one of the busiest Major Trauma centres in the UK. Production will also move to The Garden's office in Leeds.

This was highlighted by interviewees, with Joe Evans, MD at Swan Films stating that 'Channel 4 are always having conversations with us: how to represent different regions, how to avoid programmes becoming London centric'. Leanne Klein, MD at Twenty Twenty explained 'We're moving the company to Bristol. Channel 4 pushed forward with a regional focus in a way that no other broadcaster has. It's been very impressive'. Channel 4 supports producers to make the move possible – Twenty Twenty has launched a new training scheme, in partnership with Channel 4, to train 24 Bristol-based production staff, who are now working on *First Dates* in areas including casting, research, editing and directing. Recent BBC announcements such as *Top Gear* moving production to Bristol show again how

[82] https://www.channel4.com/press/news/channel-4-announces-fifth-growth-fund-investment-eleven-film
[83] The Hollywood Reporter, Netflix Reveals Viewership Numbers for 'You,' 'Sex Education' and More, 2019
[84] Deadline, *Sony Pictures Television Acquires 'Sex Education' Producer Eleven*, 2020

having more than one PSB with public service incentives flowing from public ownership means that they spur one another on to make progress and generate new ideas about how to do it.

Channel 4 can invest in regional skills and training initiatives

Channel 4 runs multiple training schemes to support the development of talent across the Nations and Regions, both for those wanting to break into the industry and for those looking to advance their careers, including:

- **4skills** – launched in 2020 to provide entry-level opportunities to people from across the Nations and Regions to break into the TV industry, , including the relaunched Channel 4 Production Training Scheme, Channel 4 Apprenticeships, 4Studio Placements, and the Aspiring Solicitors partnership
- **Production Training Scheme** – paid placements for people from backgrounds that are currently underrepresented in the TV industry at production companies across the Nations and Regions (jointly paid for by Channel 4 and the production company)
- **Apprenticeship Scheme** – apprenticeships for people to spend 14-24 months attached to a Channel 4 department in Leeds or Manchester
- **Creative Schemes** – including bursaries, funding and support for up-and-coming playwrights, screenwriters, documentarians. A new Daytime Screen Scotland Development Initiative has Channel 4 match-funding five developments in the region, one of which will be made into a pilot

We heard in our interviews about the strength Channel 4's commitment to training and skills development, including Channel 4 funding for production companies to regionalise their programmes. This commitment to skills and training is important for levelling up the Nations and Regions and developing sustainable creative hubs. For Sally Joynson, CEO of Screen Yorkshire, Channel 4's HQ in Leeds says: '"You can be part of this industry. You don't have to move 200 miles away. You can make a career here." For the whole region, and particularly for the more economically deprived parts of Yorkshire, that is game changing'.[85]

Benefit to local audiences

But it's about more than just investment, 'It's about representing a diversity of thought and opinions from across the UK'.[86] Channel 4 tells local stories on screen from across the Nations and Regions and provides a platform for everyone, including underrepresented voices (e.g. *Derry Girls*, see below), bringing the country together.

Case Study 10: Derry Girls, Hat Trick Productions

Derry Girls is a Channel 4 comedy set against the backdrop of The Troubles in 1990s' Northern Ireland, that follows the lives of four teenagers and their time at an all-girls Catholic secondary school. Blending themes of religion, politics and war from the perspective of schoolgirls, the show's humour has received critical acclaim. The series won Best Scripted Comedy at the Royal Television Society Awards in 2019.

The first two series of *Derry Girls* received a 60 per cent audience share in Northern Ireland. *Derry Girls* has since become Northern Ireland's most watched TV show of all time.

The programme's success garnered attention in the US market, and international rights to the show were acquired by Netflix for streaming in over 80 territories.

[85] Channel 4, *4 All the UK Case Studies*, 2020
[86] https://www.channel4.com/corporate/4-all-uk-working-across-uk

Another example is *Deadwater Fell*, a drama series set and filmed in Scotland, which averaged share figures 10 per cent higher in Scotland than for the UK as a whole.[87] It was Channel 4's most watched commissioned drama in Scotland since modern records began in 2002. Similarly, *The Accident*, set and filmed in Wales, was one of Channel 4's most popular shows with Welsh viewers. True North's *Devon and Cornwall* series became Channel 4's highest-rating new non-Bake Off 8pm series for three years and its viewing share was 401 per cent above the slot norm in South West England.

By drawing on talent from across the Nations and Regions of the UK, Channel 4 is able to commission distinctive content that reflects the rich diversity of British culture and subcultures, and, when exported to foreign markets, shows the rest of the world that there is more to the country than just what is surrounded by the M25. By extending the soft power impact of UK TV to the whole UK, Chanel 4 helps to support wider benefits like tourism and business links. As Odhran Dunne, General Manager of Visit Derry remarked, 'If you are interested in screen tourism, … you obviously now have *Derry Girls*, which has been a great success for ourselves' and exports of the show have 'given us an international platform'.[88] There are now *Derry Girls* screen walking tours in Derry and planned for Belfast, with screen tourism supporting demand for accommodation and services on- and off-season.

4.4 Channel 4 can enhance the UK's global appeal and international soft power

Section Summary

- Channel 4 programmes have been sold in territories all over the world, promoting the UK as an open, forward looking and vibrant nation and enhancing the UK's soft power
- These programmes are distinctive and genuinely British compared to SVOD content, which is developed to primarily appeal to global audiences because they have a different business model and purpose
- Channel 4 provides opportunities to up-and-coming actors from across the UK who go on to achieve international success

Growing international exports, promoting global trade and developing the UK's influence is at the centre of the UK Government's strategy. In the July 2021 launch of the 'Integrated Review: Global Britain in a Competitive Age', Boris Johnson recognised the importance of the creative industries in maintaining and further promoting the UK's soft power on a global stage, 'Our country overflows with creativity in the arts and sciences: the wellsprings of unique soft power that spans the globe'.[89]

The Government has noted that many countries are heavily investing in their creative industries to promote their soft power. As noted in the Integrated Review, 'The strength of the UK's soft power cannot be taken for granted. As a vital part of our foreign policy, it requires thoughtful investment that enables our domestic assets and international activity to thrive in the long term.' The Government concludes that continued investment into the UK's creative industries is vital to maintain and grow the UK's influence on the global stage.

This is reflected in the DCMS delivery plan, which has the goal to 'Grow and evolve our sectors domestically and globally, including culture, sport, civil society, and the creative industries'. Targets were set by the Creative Industries Council to grow creative industries goods and exports by 50 per cent from 2019 to 2023. DCMS estimated in the

[87] Enders Analysis, *Programming outside the London bubble: Regions to be cheerful*, 2021
[88] Odhran Dunne, *Northern Ireland Affairs Committee: Tourism in Northern Ireland Inquiry*, 2019.
[89] HM Government, *Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy*, 2021

2018 Creative Industries Sector Deal that if this growth could be realised, it would be worth £150 billion in additional revenue for UK businesses and would create 600,000 new jobs.

Channel 4 programmes promote the UK across the globe

Channel 4 programmes have been sold in territories all over the world, promoting the UK as an open, forward-looking and vibrant nation and enhancing the UK's soft power. Channel 4 has contributed £462 million to international secondary sales by independents across 2010 to 2019, 25 per cent of the total (£1.817 billion).[90,91]

As shown in Figure 19, Channel 4 commissioned eight of the top 25 best-selling UK unscripted formats internationally in 2019. *Come Dine with Me* has generated over £40 million in revenue from international sales over its lifetime and *Gogglebox* has generated £8 million. Channel 4's Global Format Fund will invest £30 million in new British-created and produced content formats with global potential.

Figure 19: International sales for top 8 Channel 4 unscripted formats[92]

Programme	Territories
The Money Drop	55
Come Dine with Me	46
Gogglebox	39
First Dates	26
Undercover Boss	32
Wife Swap	31
Kitchen Nightmares	29
Supernanny	21

Many Channel 4 programmes are sold internationally as finished programmes, with select examples shown in Figure 20. As discussed in Part 2, this provides a sustainable revenue source for independent production companies, who own all of the international rights for Channel 4 programmes they produce, under the conditions set out by terms of trade. This allows independent production companies to grow their business and take more risks on new programmes, benefiting the whole TV ecosystem.

Following a deal in January 2021 with Channel 4 to renew Two Rivers Media's *Escape to the Chateau* for a further two series, all series of the programme were sold to Peacock in the USA in June 2021. This was welcomed by Alan Clements, MD of Two Rivers Media, who argued 'International exports are enormously important to us as production has become very low margin. Now, it's increasingly important to produce something you can sell'.

[90] Pact, *UK Television Production Survey: Financial Census*, 2020
[91] Channel 4, *Annual Report*, 2010-2019
[92] K7 Media, *Tracking the Giants: The Top 100 Travelling Unscripted Formats*, 2021

Figure 20: International sales of selected finished programmes

Programme	Territories
Black Mirror[93]	Over 80 (all Netflix territories)
Derry Girls[94]	Over 80 (all Netflix territories)
It's a Sin[95]	Over 20
Friday Night Dinner[96]	17
The Inbetweeners[97]	21

Channel 4 don't only contribute through the initial commission – Sarah Doole, CEO of Red Productions remarked that its brand makes a massive difference when attracting international funding to green light the production: 'If it's more unique and more special, there's a better chance of raising money internationally – that's the stamp of Channel 4, it's an anchor funder'. Its contribution also extends to promotion: 'Channel 4 leads the way in the UK in terms of marketing, to get coverage and shows out there, with the best possible amplification. *It's a Sin* won lots of awards because Channel 4 backed it internationally, championing British shows around the world'. *It's a Sin* has been sold to five continents.

As well as providing a sustainable revenue source for independent production companies, the export of Channel 4 programmes is important to promote distinctive programmes around the world that are genuinely British. DCMS references the growing number of SVOD commissions in the UK, but SVOD commissions are different. SVOD generally want to retain global rights precisely because the content is destined to serve both a local and a global audience, and total 'rest of world' success is more important than the UK.

This is reflected in the choice of subject and treatment, often taking what are perceived to be the most exportable elements of UK culture. Some have used the term 'glocal'. Minister of State for Media and Data, John Whittingdale, has noted in relation to discussions at the Public Service Broadcasting Advisory Panel, 'the Britishness of the content made for PSB channels against the Britishness of shows made for streamers' that seek to market to a global rather than a UK audience, and 'the fact that *Sex Education*… is set in Wales and made in Wales, but does not obviously appear to be a school in Wales, is just a function of that'. Genuinely British content is best placed to share our culture and language on the world stage – and Channel 4 is key to this, due to its enhanced PSB remit and its role within the independent production sector.

Finally, we heard that Channel 4 has helped open up opportunities for UK independents to do deals with European broadcasters, facilitating sales and co-productions – Walter Presents on All4 was considered a major development by establishing links and a feeling of reciprocity. European broadcasters are important partners and investors in content.

[93] https://en.wikipedia.org/wiki/Black_Mirror
[94] https://en.wikipedia.org/wiki/Derry_Girls
[95] http://www.redproductioncompany.com/news/all3media-international-announces-pre-sales-to-five-continents-for-new-russell-t-davies-drama-its-a-sin/
[96] https://www.imdb.com/title/tt1844923/releaseinfo?ref_=ttspec_sa_2
[97] https://en.wikipedia.org/wiki/The_Inbetweeners

Changing Channel 4’s ownership could cost the independent production sector up to £3.7 billion within ten years

5 Changing Channel 4's ownership could cost the independent production sector up to £3.7 billion within ten years

Section Summary

- Channel 4 provided an estimated £940 million of value to the independent production sector in 2019 – through commissions, secondary sales of Channel 4 programmes, and though its contribution to the 'creative economy' – i.e. its value to production companies, actors and other talent that are a success due to Channel 4's initial support
- If a new owner of Channel 4 pursued a strategy of moving productions in-house and took fewer creative risks, this could cost the independent production sector up to £3.7 billion within ten years
- The full impact would be even greater – as a weakened independent production sector would have a significant knock-on impact on the UK's wider audiovisual ecosystem over time

To demonstrate the potential impact of changing Channel 4's ownership model, we have estimated the lost value to the independent production sector in the ten years after the sale. This is not straight forward, as Channel 4's benefit to the industry goes beyond its quotas and publisher-broadcaster status – and includes its qualitative public purposes around innovation and risk taking, nurturing talent and providing opportunities to start up producers who go on to run successful businesses (as discussed in Part 2). Nonetheless, it is helpful to sketch out an illustrative cost to demonstrate that these seemingly intangible benefits add up to real economic value, which would be at risk under a change in ownership.

5.1 Channel 4's value to the independent production sector

As starting point, we estimate the total value Channel 4 provided the independent production sector in 2019. This can be broken down into two components:

a) **Direct value** – Channel 4 commissions and secondary sales on programmes commissioned by Channel 4
b) **Creative economy value** – industry revenues from independent production companies, actors, directors, and additional creative talent who are successful after Channel 4 provided them with an early break

We then consider how this value would change over the next ten years if Channel 4's ownership were to change. A high-level overview is provided below, with further detail in the Appendix.

Estimating direct value

For the main channel only, Channel 4 commissioned £332 million from independent production companies in 2019.[98] Drawing on information from the Channel 4 annual report and the Pact Census, we estimate Channel 4 spent a further c.£40 million on commissions from independent producers for its portfolio channels. This provides a total commissioning value of c.£370 million with UK independent producers. In 2019, we estimate total secondary sales from UK independents was £429 million.[99] While the PSBs commission more content and typically offer producers favourable terms due to the terms of trade, we assume this is derived equally from across all UK commissions. We

[98] Pact, *UK Television Production Survey: Financial Census*, 2020
[99] Pact, ibid

can then estimate that Channel 4' share of secondary sales from UK independent producers is approximately equal to Channel 4's share of UK commissioning spend with UK independent producers. Of course, C4 and other PSB broadcasters are more likely to commission programmes which are valuable in the secondary market, and so this approach provides a conservative estimate of the secondary sales from Channel 4 commissions, of c.£95 million, bringing the estimated direct value to c.£470 million.

Estimating creative economy value

Channel 4's role as a creative seed fund or 'sandbox' for the industry (discussed in Part 4) is a crucial part of its remit. Its value to the creative economy must therefore be taken into account when considering the impact on the independent production sector. We define 'creative economy value' as the value produced by independent production companies, actors, directors, and additional creative talent that are successful after Channel 4 provided them with an early break. For the purposes of our analysis, we have limited this to the independent TV production sector, but this is conservative because the full creative economy value will be even higher due to the cross over into broadcaster studios, film and other adjacent industries, including advertising, screen tourism and fashion.

As already mentioned, creative economy value is very challenging to calculate, and the following estimates are approximate and illustrative.

Using the *O&O Producers Database*, we estimate that each year, Channel 4's main channel commissions content from around 15 independent production start-ups which go on to become successful businesses – in that they have since received further commissions from other broadcasters (based on content commissioned between 2006 and 2019, see Appendix for further detail).[100] Examples include Swan Films, Milk & Honey, Warp Films, Eleven Film and New Pictures. We estimate that between 2006 and 2019, 195 new production companies became successful businesses following initial commissions from Channel 4; based on our analysis of the programmes they have gone on to produce and the average cost per hour of such programming, we estimate that they now generate around £380 million in revenue per year across both PSB and non-PSB commissions.[101] This is increasing by a further £29 million each year, across an expected 15 new production companies, as they get their break under Channel 4's current remit and associated incentives to support the sector. Since Channel 4 also commissions programmes for its spin-off channels, which could also provide opportunities for new producers, our estimate is conservative.

This portion of Channel 4's creative economy value only considers revenue from production companies that have been commissioned by Channel 4. We must also consider the value created by the actors, directors and additional creative talent who have their careers launched by these production companies that got their break through a Channel 4 commission, and who go on to further success. To estimate this wider positive impact on the sector, we have applied a multiple to our estimated value to independent production companies. Within the scope of this report, there is no firm basis on which to estimate such a multiple but given Channel 4's remit to nurture talent, it could be significant; for this illustration we have used 25 per cent, but the true value could be more. For example, new talent will also get their break on Channel 4 commissions from more established producers not included in our 'direct value' calculation. An example of this Michaela Coel, who launched her career writing and acting in Channel 4's *Chewing Gum* and then went on to create the award-winning *I May Destroy You* for the BBC with a different production company (further examples of Channel 4's role in nurturing talent are provided in Part 4).

Bringing this together, we estimate that Channel 4 provided c.£475 million in creative economy value to the UK TV sector in 2019, with an additional £36 million added every year as it continues to give new production companies their break.

[100] Oliver & Ohlbaum Producers Database – proprietary internal resource

[101] Note that this excludes direct value from Channel 4 commissions, which we already captured in the previous section

Estimating total value

Bringing together direct value and creative economy value, we estimate Channel 4 provided £940 million to the independent production sector in 2019. For reference, this is 28 per cent of the total independent production sector's revenues.[102] The key values from this analysis are summarised in Figure 21.

Figure 21: Channel 4's value to the production sector, 2019

Value/number	Description
Direct value	
£332m	Channel 4 (main channel only) commissions from independent production companies
c.£40m	Estimated Channel 4 digital channel commissions from independent production companies
c.£370m	Channel 4 portfolio commissions from independent production companies
£429m	Total independent production company secondary sales
c.£95m	Estimated value of secondary sales from programmes commissioned by Channel 4
c.£470m	**Estimated direct value of Channel 4 to independent production sector in 2019**
Creative economy value	
15	Number of start-up production companies launched by Channel 4 each year (between 2005 and 2019)
c.£36m	Estimated creative economy value generated by each new cohort of Channel 4 start-up production companies each year
c.£475m	**Estimated creative economy value generated by Channel 4 in 2019**
Total value	
c.£940m	**Estimated total value provided by Channel 4 to independent production sector in 2019**

5.2 Estimating the impact of Channel 4 ownership change

To estimate the impact of Channel 4 ownership change, we need to consider how Channel 4's direct value and creative economy value will change over time – considering scenarios under public ownership and new ownership.

Development of value under public ownership

Under public ownership, we can assume that Channel 4's commissioning spend on independents will remain broadly consistent in the next ten years, as it has done over the previous decade. We can also assume that sales from secondary rights of Channel 4 commissioned programmes will grow in line with the market annual growth rate over

[102] Pact, *UK Television Production Survey: Financial Census*, 2020

the previous decade and that the creative economy value will continue to grow at a rate of £36 million per year. These assumptions result in an estimated annual value of c.£1.2 billion by 2026 and c.£1.4 billion by 2031.

Development of value under a new commercial owner

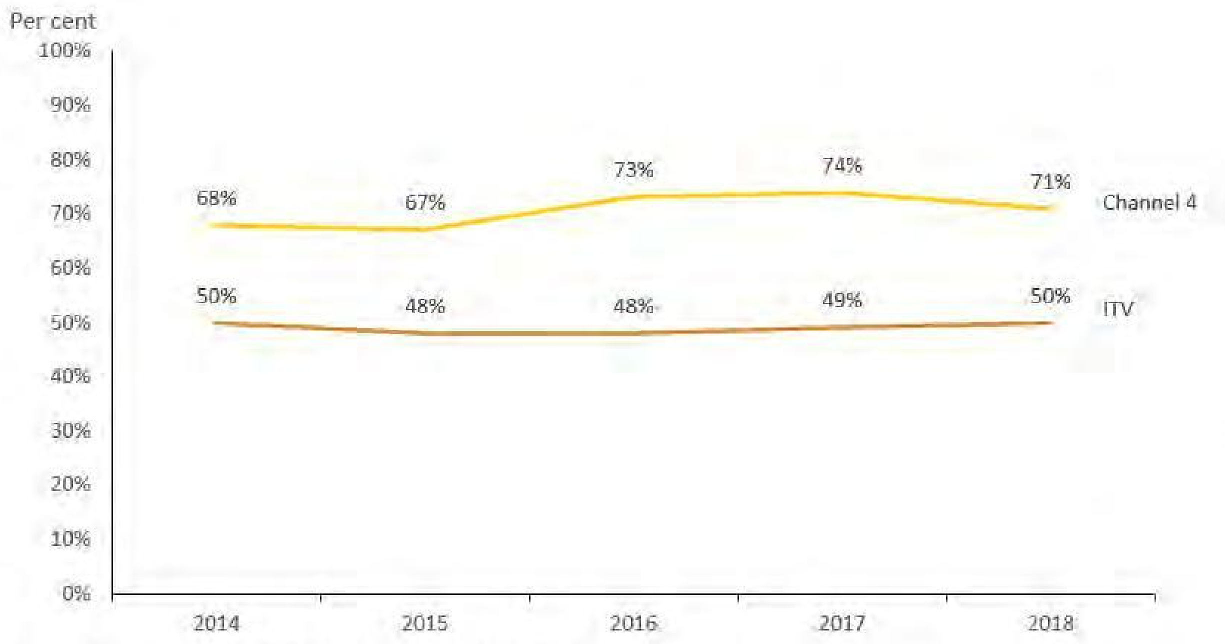
A commercial owner would likely be incentivised to create in-house production and would be under pressure to commission programmes that are guaranteed to provide a quick return on investment, rather than supporting new independent production companies and nurturing talent from across the UK, which can be riskier. Therefore, we would expect both direct value and creative economy value to decline over time. We expect a commercial owner of Channel 4 to set a long-term target of producing 75 per cent of content in-house in order to maximise profit and IP ownership. This strategy would take a long time to implement – we assume that continuing drama and mid-performing (audience of 1-2.5 million) Factual and Entertainment programmes would come in-house first, this would enable Channel 4 to produce a predictable volume of mid-budget programming without taking on too much creative risk in the early years. We except that over time this would be rolled out for other genres and strands as in-house increased its ambition and sought to produce more valuable programming with greater secondary appeal – whether as finished programming or formats. We have assumed the endpoint of 75 per cent is achieved after ten years.

It is hard to predict what would happen to secondary sales for Channel 4 commissioned programmes from independent producers, given there is already a strong catalogue of programmes commissioned by Channel 4 during its first 40 years. We have assumed that this would remain stable under new ownership at c.£95 million per year, but this will likely overstate the value under a new owner since, in reality, secondary sales of independently produced programming may reduce over time as the catalogue becomes older, and a growing share of newly commissioned content comes from Channel 4's newly formed in-house production capability – i.e. the declining use of independent producers is not offset by market growth in secondary rights revenues.

The impact on the creative economy value is equally challenging to predict. As argued throughout this report, it is very likely that a commercial owner would reduce its creative risk appetite and commitment to any qualitative public purposes. However, the impact of this would not be felt immediately – the creative economy value already created by Channel 4 over its lifetime would not disappear, given that Channel 4's involvement was to provide the initial spark for start-ups and young actors who now have broader businesses and careers. However, there is no doubt that the creative economy value would not continue to grow at the same rate under a new owner with changed incentives. We have therefore assumed that it would grow at 25 per cent of the rate seen under the public ownership case, with additional value created though some continued investment in the indie sector, but subdued by the transition to in-house production and the resulting gradual exit from the market of some production companies and talent.

Some might argue that whilst spend on independents declines, total content spend increases due to superior access to capital and growth incentives that come with private ownership. However, the opposite could also be true due to the new profit-maximising incentives, desire to find cost synergies, and reduced broadcaster competition in the case of a merger. As shown in Figure 22, ITV's content spend as a proportion of broadcast and online revenue has consistently been lower than Channel 4. Therefore, we have assumed these two forces will offset each other and the overall content spend will remain flat. That may be optimistic.

Figure 22: Programme spend as a proportion of broadcast and online revenue, Channel 4 and ITV



Source: Ofcom, Small Screen: Big Debate, The Future of Public Service Media, 2020

Comparing the value generated by Channel 4 under public and private ownership

Bringing this together, in the first year after the sale, we estimate that c.£80 million of value would be lost in the independent production sector, largely driven by an initial push to move Continuing Drama, Entertainment and some types of Factual Entertainment programmes in-house. After three years, the cumulative impact is estimated as c.£400m, driven by reduced creative economy growth and further programmes brought in-house. In years five and ten, the cumulative impact is estimated at £1 billion and £3.7 billion, respectively – showing the significant impact of losing Channel 4's creative spur and reliable source of commissions for independents.

These forecasts assume that the overall UK TV sector remains healthy. However, as set out in Section 3.2, removing Channel 4's important role in the delicate PSB ecosystem and the damage this causes the independent production sector would have significant knock-on impacts on broadcaster studios and the wider audiovisual ecosystem. It cannot be assumed that the £4 billion lost to the independent production sector over ten years would simply be transferred to broadcaster studios. The most likely scenario is that an impact of this magnitude on the independent production sector would damage the health of the UK's audiovisual sector as a whole and therefore its attractiveness as a globally competitive hub.

Appendix

6 Appendix

The table below provides calculations and assumptions to support Part 5: *Changing Channel 4's ownership could cost the independent production sector up to £3.7 billion within 10 years*.

Section	Calculations and assumptions
1. Channel 4's direct value to independent production companies, 2019	a) **£332m** – Channel 4 (main channel only) commissions from independent production companies, Pact Census 2020 b) **£432m** – Channel 4 (main channel only) total first-run commissions, Channel 4 annual report 2019 c) **£483m** – Channel 4 (full portfolio) total first-run commissions, Channel 4 annual report 2019 d) **77%** – Ratio of Channel 4 (full portfolio) spend on independent production companies, estimated using 1a and 1b e) **£51m** – Channel 4 (digital channels) total first-run commissions, Channel 4 annual report 2019 f) **£39m** – Channel 4 (digital channels) commissions from independent production companies, estimated using 1d and 1e g) **£371m** – Channel 4 (full portfolio) commissions from independent production companies, estimated using 1a and 1f h) **£429m** – Total independent production sector secondary sales, Pact Census 2020 i) **22.0%** – Channel 4 proportion of total UK commissioning spend, calculated from Pact Census 2020 j) **£95m** – Value of secondary sales from programmes commissioned by Channel 4, estimated using 1h and 1i ○ This assumes that PSB secondary sales value is proportionate to its commissioning value. While this is approximate, it provides an illustrative view k) **£466m** – Direct value of Channel 4 to independent production sector in 2019, estimated from summing 1g and 1j
2. Creative economy value, 2019	a) **15** – Number of start-up production companies launched by Channel 4 each year, estimated using Oliver and Ohlbaum's *Producers Database*. ○ A longlist of independent production companies between 2006 and 2019 was identified by searching for companies who had made at least one new series for Channel 4, and were not owned by a larger Group ○ This provided a longlist of c.70 production companies for each year between 2006 and 2019 ○ The longlist was cut down to 15 companies per year, by determining the companies who were provided an early break by a Channel 4 commission b) **£12m** – Average revenue from PSB commissions generated by a Channel 4 'cohort' each year ○ A Channel 4 'cohort' is defined as the group of new start-ups that get a break on Channel 4 in any given year ○ Their PSB commissions revenue was calculated by determining the programmes they made in the years subsequent to Channel 4's support, based on O&O estimates of PSB average cost-per-hour – derived from Ofcom data ○ Based on a sample of three starting years (2006, 2012, 2015), the average revenue from each cohort each year is estimated as c.£12m ○ Channel 4 commissions were excluded from the calculation to avoid double counting with part 1 c) **£29m** – Average revenue generated by a Channel 4 'cohort' each year, excluding Channel 4

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<tr><td></td><td>
To get from PSB commissions revenue to total sector revenue (both excluding Channel 4), the overall sector ratios from Pact Census 2020 were applied
d) 25% – Percentage uplift to convert from revenues from independent production companies who got their break linked to a Channel 4 commission to also reflect other stages of the value chain
This includes actors, directors and further creative talent who launched their careers on a Channel 4 programme, and have gone on to further success
e) £36m – Creative economy value generated by each new cohort of Channel 4 start-up production companies each year, estimated from 1c and 1d
f) £475m – Creative economy value generated by Channel 4 in 2019, from the 13 years of new cohorts between 2006 and 2018
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<tr><td>3. Forecast value inputs – public ownership</td><td>
a) £400m – Channel 4 commissioning spend on independent production companies each year in the next 10 years, based on public commitment to increase content budget by £40m,[103] and previous content budgets broadly stable over the last 10 years
b) 6.2% – Compound annual growth rate of sector secondary sales between 2010 and 2019, taken from Pact Census 2020. Used to forecast secondary sales revenue for Channel 4 commissioned programmes
This assumes Channel 4 continues to take the same approach to commissioning content under the same remit, resulting in distinctive programmes that have strong value on the secondary market
c) £36m – Annual increase to creative economy value, as calculated in part 2
This assumes Channel 4 continues to take risks on new independent production companies, and emerging actors and talent, at the same rate as over the period between 2006 and 2019
</td></tr>
<tr><td>4. Forecast value inputs – new ownership</td><td>
Commissioning budget for independents

We have assumed a new owner will have a strategy to move production in-house (notwithstanding a possible quota agreed at point of sale) with a long-term target of 75%. However, this will take time to implement
Using the Oliver & Ohlbaum Producers Database, we identified the strands that are most at risk of going in-house in the short term, to map out our estimates
In the following estimates, 'medium performing programmes' are defined as strands which had an audience between 1 million and 2.5 million in 2020

Year 1: £43m inhouse – Initial focus on Continuing Drama (as Channel 4 is currently the only PSB to commission an independent production company to produce this genre) and 10 per cent of mid-performing programmes within Entertainment and some types of Factual Entertainment (the two most common genres within mid-performing Channel 4 programmes)
Year 2: £63m inhouse – increase to 25% of medium performing Entertainment and Factual Entertainment in house
Year 3: £95m inhouse – increase to 50% of medium performing Entertainment and Factual Entertainment in house
Year 4: £128m inhouse – increase to 75% of medium performing Entertainment and Factual Entertainment in house
Year 5: £160m inhouse – increase to 100% of medium performing Entertainment and Factual Entertainment in house
Year 6: £200m inhouse – expansion of strategy to target other genres and strands, move to 50% of total production in-house
Year 7: £230m inhouse, 58% of total
Year 8: £260m inhouse, 65% of total
Year 9: £280m inhouse, 70% of total

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[103] Channel 4, *Annual Report*, 2020

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Year 10: £300m in-house, 75% of total. This is the maximum permitted by Ofcom's quota for independent production
£95m – Estimated annual value of secondary sales for Channel 4 commissioned programmes. Assumed to be flat with Channel 4 taking fewer risks and commissioning more content in-house, to retain programme rights
£9m - annual increase in creative economy value, as calculated in Part 2. Assumed to grow at 25 per cent of the rate seen under public ownership, due to Channel 4 taking fewer risks on new independent production companies and talent
This assumption is necessarily illustrative and creates a simplified view of what would, in reality, be a long term effect – due to the cumulative nature of the impact

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<tr>
<td rowspan="5">5. Forecast value outputs for key years[104]</td>
<td>Year</td>
<td>Value to independent production sector – with public ownership</td>
<td>Value to independent production sector – with new ownership</td>
<td>Difference between public and new ownership</td>
<td>Cumulative difference – total cost to the independent production sector</td>
</tr>
<tr><td>1</td><td>£1.048bn</td><td>£972m</td><td>£76m</td><td>£76m</td></tr>
<tr><td>3</td><td>£1.134bn</td><td>£938m</td><td>£196m</td><td>£402m</td></tr>
<tr><td>5</td><td>£1.221bn</td><td>£891m</td><td>£330m</td><td>£995m</td></tr>
<tr><td>10</td><td>£1.449bn</td><td>£797m</td><td>£652m</td><td>£3.653bn</td></tr>
</table>

[104] Note that any differences are due to rounding, and to the passage of time between the rows (e.g. year 3 cumulative difference is the total of years 1-3 differences)