

Response to the House of Lords Communications and Digital Committee

Consultation on the Future of Channel 4

September 2021

1. About ISBA

- 1.1. ISBA is the trade body representing UK brand advertisers. Our members include some of the country's best known and most respected brands from sectors including financial services, FMCG, retail, automotive, publishing, media, and utilities. All told, we represent more than 70% of the UK's top 100 advertisers.
- 1.2. ISBA is the only body in the UK that enables advertisers to understand their industry and shape its future, because we bring together a powerful network of marketers with common interests, empower decision-making with knowledge and insight, and give a single voice to advocacy for the improvement of the industry.
- 1.3. ISBA is a member of the Advertising Association and represents advertisers on the Committee of Advertising Practice (CAP) and the Broadcast Committee of Advertising Practice (BCAP) - sister organisations of the Advertising Standards Authority which are responsible for writing the Advertising Codes. We are also members of the World Federation of Advertisers. We are able to use our leadership role in such bodies to set and promote high industry standards as well as a robust self-regulatory regime.

2. Consultation Response

- 2.1. ISBA opposes the privatisation of Channel 4. Channel 4's unique remit provides advertisers with highly valued, younger and diverse audiences, at scale and in quality environments, at a time when these audiences are becoming increasingly hard to reach through linear TV. Channel 4 has led the field with its BVOD services, which again deliver brand-building advertising to sought-after audiences. Channel 4 also supports the UK's world-leading creative sector, on which local advertising production depends. No new owner, with a purely commercial incentive, could be guaranteed to maintain all the facets of the current offering, which contributes so significantly to media plurality and diversity in the UK. If the Government is convinced that the only possible way for Channel 4 to secure further investment and withstand the increased competition from streaming services is for its ownership to change, then it should publish its evidence base and economic analysis. Currently, the Government has failed to provide a convincing economic or business case.

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

- 2.2. Channel 4 is a publicly owned asset. It is therefore not unreasonable for the Government to ask questions about its future ownership model, remit, value for money, and objectives; and of course, there are challenges for all broadcasters in the linear TV market. This is not unique to Channel 4. All broadcasters face the same set of circumstances: the current economic climate; the ongoing impact of coronavirus; and rapidly evolving digital and BVOD markets.

2.3. However, from our point of view, Channel 4 is more than satisfactorily meeting these challenges while still in public ownership. We believe that this clearly demonstrates the sustainability of its current public ownership model and does not give cause to re-evaluate the ownership of Channel 4 Corporation.

2.4. The House of Lords Communications Select Committee report, *A Privatised Future for Channel 4?* (2016), clearly stated that:

“Broadcasting is a fast-moving industry and the way in which content is consumed has changed in the last 10 years to include mobile devices and new distributors. This is seen most markedly amongst the younger viewers who make up [Channel 4 Corporation’s] ... key demographic. However, C4C has demonstrated its resilience in the face of these changes, diversifying its content supply and its revenue streams in order to meet the challenge”.¹

Our view is that Channel 4 has continued to meet this challenge and kept pace with the evolution of the market.

2.5. Channel 4 is rising to these testing market circumstances, in some cases as a market leader. It is meeting its obligations under the public service broadcaster remit set by government and is maintaining a financially strong position. In the foreword to this consultation, the then-Secretary of State, Oliver Dowden, wrote that:

“Channel 4 itself has done an excellent job in delivering its remit and more recently in managing the uncertainty in the market over the last few years.”

2.6. Enders Analysis’ June 2021 report, *Channel 4: Privatisation – here we go again*, sets out how the economic climate in early 2020 presented an extremely challenging outlook for advertising revenues – theoretically putting Channel 4 under pressure. However, as Enders show, very strong late returns meant that Channel 4’s total revenues were down just 5% year-on-year, with an operating surplus of £71 million.² It should be noted that Channel 4’s robust financial position has also allowed it to repay the Government £1.5m in furlough payments in 2020.³

2.7. While there are challenges for all broadcasters, we do not see that the current challenges in the TV broadcasting market present insurmountable barriers to a sustainable Channel 4 in public ownership or give cause to re-evaluate the ownership of Channel 4 Corporation.

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

2.8. The Government has argued that the privatisation of Channel 4 Corporation is needed so that the broadcaster can obtain investment to secure its long-term future and compete with online streaming services such as Netflix and Amazon Prime.

2.9. However, it remains unclear how Channel 4 being out of public ownership would put it in a better position to secure financial investment – when compared to its current

¹ House of Lords Select Committee on Communications, *A Privatised Future for Channel 4?* (2016), p3.

² Enders Analysis, *Channel 4 - Privatisation, here we go again* (2021).

³ BBC News. [“Channel 4: ‘Improved’ outlook enables £1.5m furlough repayment”](#) (29 Oct 2020).

business model. Channel 4 is in a strong and secure financial position, with a growing audience and some market leading on-demand infrastructure leaving it well placed to face future challenges in the market. If the Government is convinced that the only possible way for Channel 4 to secure further investment and withstand the increased competition from streaming services is for its ownership to change, then it should publish its evidence base and economic analysis. Currently, the Government has failed to provide a convincing economic or business case.

2.10. Channel 4 is a sustainable business, meeting its remit requirements as set by government while creating innovative content, supported by revenue from the UK advertising sector. ISBA and its members do not want this valuable market disrupted or put at long-term risk.

2.11. Channel 4’s operation is governed by a specific remit, outlined in the Communications Act 2003, which requires its programming to be:

“Innovative, creative and distinctive, for it to take account of cultural diversity and to make a significant contribution to meeting the need for licensed public service channels to include educational programmes”.⁴

2.12. The House of Lords Communications Committee report stated that:

“Some of the important content that C4C produces in news, current affairs and film would be at risk if the organisation was privatised and had to operate in a more commercially focussed environment. C4C’s roles in commissioning programmes from smaller production companies and from outside London would both be threatened by a privatisation deal”.⁵

2.13. We are concerned that, outside of public ownership, there is a substantial risk that the public service broadcasting remit would be diluted and challenged over time by a new private owner – one which would naturally be pursuing profit and returns to shareholders as a priority. This may disrupt the current business model, content output and, by extension, audience.

2.14. By contrast, Channel 4 Corporation’s 2020 Annual Report states that:

“all of our revenues go back into delivering Channel 4’s remit. This benefits both viewers and the creative industries”.⁶

We believe that this beneficial model would be put under significant risk, and potentially eroded over the long term, if Channel 4 were to be privatised and subjected to a for-profit model.

2.15. The publisher-broadcaster model has proven to be vital for smaller UK independent production companies. ISBA would not want this model to be put at risk as a consequence of privatisation. Supporting the diversity and vibrancy of the independent production sector has been a vital stimulus to both those production companies and the UK creative industries more widely. The diverse, innovative, and original range of

⁴ Communications Act 2003, Explanatory Notes, <https://www.legislation.gov.uk/ukpga/2003/21/notes/division/5/3/4/3>.

⁵ House of Lords Select Committee on Communications, op. cit., p4.

⁶ Channel 4, [Annual Report 2020](#).

broadcast content which this has consistently produced provides advertisers with a high-quality and competitive environment in which to advertise.

- 2.16. We note that in 2020, Channel 4 reported that it spent £370m on original content; worked with 161 independent producers; and that 47% of its spend went on commissioning first-run original broadcast content in the nations and regions of the UK. This was the highest-ever percentage of investment outside of London for Channel 4’s main channel.⁷
- 2.17. It is precisely this publisher-broadcaster model that empowers Channel 4 to take creative risks with its commissioned programming, and to broadcast the award-winning content that attracts the younger and diverse audience which is so highly valued by the advertising sector – an audience which is otherwise hard to reach through linear TV.
- 2.18. We would make the further point that, if Channel 4 were to be sold to another domestic broadcaster such as ITV or Sky, there is a risk that this combined broadcaster and media buyer would be in a position to secure undue dominance in the TV advertising market. The reduction in the number of TV advertising sales houses would reduce competition in the market and be a significant concern for advertisers. While TV media advertising space is traded in an effective way through supply and demand, there are already distortions that take place within it. We are concerned that this could be manipulated further if a broadcaster has undue dominance in the market, to the detriment of advertisers. This is a significant risk for our members and the wider industry.
- 2.19. The distinct audience of Channel 4 is of immense value to UK advertising as a safe, sustainable, and valuable space to communicate with younger consumers. 22 of the 25 youngest-profiling shows of any UK public service broadcaster are on Channel 4; approximately 90% of 18–34-year-olds are reached by Channel 4’s social media channels; and All 4’s audience is the skewed the most towards younger people of any public service broadcaster’s on-demand player: it commands 37% of the 16-34-year-old audience (closer to Netflix and Amazon Prime than any other public service broadcaster). ISBA would not want this audience to be put at risk as a consequence of privatisation.

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

- 2.20. The failure of the Government to publish its evidence base or economic assessment, which leads it to conclude that there is reason to have concern about Channel 4’s longer-term viability, makes it difficult to full address this question. Channel 4’s Annual Report, audience figures, advertising revenue, digital infrastructure, content output and contribution to the broader UK economy do not lead us to conclude that the long-term viability of Channel 4 is under threat.
- 2.21. Channel 4 is adapting to the evolving digital on-demand broadcast market, and successfully increasing the revenue generated from it. The channel has reported that its digital advertising revenue in 2020 was up to £161m, from £84m in 2016.⁸ This is while continuing to broadcast award-winning and unique content for its uniquely young

⁷ Channel 4 Corporation, [Financial Statements 2020](#).

⁸ Enders Analysis, op. cit.

and diverse audience base. The Future4 strategy aims to turbocharge the channel's digital transition by doubling All 4 viewing by 2025. 17% of Channel 4's total revenues are now attributed to digital advertising, significantly ahead of its competitors; the target is to increase this to 30% by 2025.

- 2.22. In addition to its robust financial position and digital transformation, Channel 4 has also reinforced its ad-targeting capabilities, with the introduction of a new data suite in late April 2020. This allows for the creation of bespoke audiences and the matching of first-party data with All 4's registered users.⁹ This further develops a safe, sustainable and valuable advertising space for UK brands.
- 2.23. Despite the challenges in the current TV broadcasting market, Channel 4 and 4Studio, Channel 4's in-house digital content studio, have become market leaders in reaching younger audiences. 4Studio has reached 9 billion annual views on Facebook, with 26% of viewers being under 25; 2 billion annual views on YouTube, with 33% of viewers under 25; 222 million annual views on Twitter; and 195 million annual views on Instagram, where 19% of viewers are under 25.
- 2.24. Enders Analysis' *Media Consumption* report shows that TV usage remains high across all audiences (90%) and that traditional TV and news providers are set to endure for the long-term.¹⁰ Channel 4's increased audience share supports this, increasing as it has by 2% across its TV channels to 10.1% this year – the first year-on-year increase since 2011. Furthermore, *Channel 4 News* has increased its viewer share by 14%, including reaching more 14-34-year-olds (+52%) and ethnically diverse (+8%) viewers. Channel 4's success in building these audiences, in a challenging climate, further demonstrate its ongoing sustainability in a public ownership model.
- 2.25. The audiences Channel 4 reaches are important ones for brand advertisers – and this explains why our members and our fellow trade associations are concerned about any changes which may disrupt or erode this audience in the short or longer term. Our members have expressed clear concern that they would not want to see such a valuable part of their overall advertising mix eroded over time due to the privatisation of Channel 4, leading to a change in its broadcasting output and audience.
- 2.26. Channel 4 should continue its contribution to levelling up the regions and nations of the UK, increasing its presence outside London and strengthening its regional production remit. We see investment in the nations and regions such as that already being made by Channel 4 as positive for the UK's economy and creative industries, of which the advertising industry is a leading part.
- 2.27. We note that in 2021, Channel 4 is on track to spend over £200m in the regions and nations of the UK, building on over £1.5bn of investment. Channel 4 is also investing in jobs and economic growth across the UK with the recent opening of its new headquarters in Leeds; and in regional hubs in Bristol, Glasgow, and Manchester.
- 2.28. If the Government's wish is for Channel 4 to continue and expand its investment to support the levelling up of areas outside of London, we are concerned that a private owner may look to cut costs and focus on profit, potentially resulting in a reduction in regional spending and investment.

⁹ Ibid.

¹⁰ Enders Analysis, [Media consumption: The 'surprising' endurance of broadcast media](#) (2020).

Should the regulation and/or remit of Channel 4 be changed, irrespective of its ownership?

2.29. If Ministers want Channel 4 to achieve different outcomes in relation to the Government’s aims for public service broadcasting, then they are able to amend Channel 4’s remit through an Act of Parliament. The former Secretary of State has acknowledged to the House of Commons that:

“since its creation almost 40 years ago by a Conservative Government, Channel 4 has delivered on its remit, aims and objectives”.¹¹

It remains unclear how Channel 4 being out of public ownership would put it in a better position to sustainably deliver against the Government’s aims for public service broadcasting; and in our view, the Government has not made a convincing case.

2.30. ISBA’s primary concern regarding the remit and ownership of Channel 4 is that the requirement to broadcast “innovative, creative and distinctive” content should be protected, and the remit as a whole not watered down. The remit helps to maintain Channel 4’s relevance, innovation, and creativity in an evolving broadcast market – indeed, Channel 4 continues to be relevant and a market leader in UK broadcasting.

2.31. Channel 4’s distinctive programming is what provides advertisers with a highly-valued, younger, and diverse audience, at scale and in quality environments, at a time when these audiences are becoming increasingly hard to reach through linear TV. Channel 4’s audience is crucially important for brand advertisers – hence our members’ concern about any change or disruption.

2.32. We are concerned that in order to facilitate the sale of Channel 4 and offer a profitable venture for any prospective investor, the remit would be watered-down or changed – either at the point of sale or in the future. Channel 4’s distinctive programming, taking into account cultural diversity and making a significant contribution to educational programmes (for which Channel 4 is held to account through its remit) necessitates investment and a willingness to carry the risk of a lower financial return. The Government has not sufficiently made the case for how this could be delivered and held to account in the long-term under a for-profit model.

¹¹ *Official Report*, House of Commons, 6 July 2021; [col. 31-32WS](#).