

Channel 4 Privatisation Briefing Putting Profit Before Public Service?

VLV represents citizen interests in broadcasting in the UK. This briefing has been prepared in response to the government's July 2021 [consultation](#) which stated that its preferred option is to privatise Channel 4. VLV's [response](#) focuses on the potential impact these proposals will have on audiences and the UK's public service broadcasting provision as a whole.

Why does the government want to privatise C4?

There have been numerous attempts to privatise Channel 4 since the 1990's but they have all been abandoned because in each instance the government of the day decided that the public value of C4's remit and the benefits Channel 4 brings to the UK creative economy have outweighed the benefits of privatisation. This was the conclusion the government came to, most recently, in 2017. The Government has said (see below) that its aim is provide financial sustainability for Channel 4 going forward (although Channel 4 itself believes that its present model is sustainable). Others have suggested that the reasons that the Government is revisiting this issue so soon after ruling out privatisation only four years ago include:

- To generate income for the treasury to help reduce the national deficit, but this is likely to be no more than £1 billion.
- Culture wars: many would say that C4 represents the 'woke' sector of UK society.
- Ideologically the government supports privatisation.

It is notable that the government clearly stated in the consultation document that its preferred option is to privatise Channel 4. It is also notable that the government provided little evidence to support its proposals and no impact assessment to prove that privatisation will achieve greater sustainability for Channel 4 in the future.

If the government decides to go ahead with privatisation this will be enacted through primary legislation probably in a Media Bill in 2022. It's been suggested that while the legislation is being drafted and passing through Parliament the government could begin negotiations with potential buyers.

The Channel 4 model

Channel 4 is a publicly owned commercial broadcaster which takes no public money. It is one of the UK's four public service broadcasters and has a specific remit to champion unheard voices, to innovate and take risks, to inspire change in the way we lead our lives and to stand up for diversity across the UK.

As a 'publisher broadcaster' Channel 4 doesn't produce its own programmes; instead it commissions content from independent producers, thus supporting the UK's independent production sector and the wider creative industries. This model champions a diverse range of British-made programmes.

The current operating model allows Channel 4 to invest any profits back into content for the benefit of audiences, rather than providing a financial return to shareholders which it would have to do if it were privatised. Because it doesn't need to make a profit Channel 4 is also able to broadcast less commercially successful programmes, such as documentaries and current affairs, which are cross-financed by more commercially successful content, such as *Bake Off* or *Gogglebox*. This means it can take also take greater risks with emerging talent and new, innovative content.

Government reasons for privatising Channel 4

The government's stated motive for privatisation is that Channel 4 isn't financially sustainable in a world dominated by deep-pocketed global media players. The government says that Channel 4's future is at risk because it doesn't own the rights to the programmes it commissions (which could generate income), it has limited access to capital and it needs to be part of a bigger entity to be able to compete with the global media giants. Below are some of the reasons the government cites for privatisation:

Too much choice: The consultation says that decades on from the founding of Channel 4 'choice is no longer a problem' now that audiences have access to so much content through a combination of free to air TV, streaming and pay subscription services. VLV disagrees. In a highly competitive commercial market maintaining the wide range of high quality public service content which is currently available is increasingly challenging. It is more crucial than ever that the UK's public service broadcasting system should be maintained, if not strengthened, so that the public service broadcasters are supported and citizens continue to have access to a wide range of free to air high quality content. This is the only way to ensure equality and universal access to public service content which doesn't discriminate against individuals on the basis of their ability to pay for additional services or geography.

Linear TV advertising is in decline: The government's assumptions about Channel 4's sustainability are based on its current reliance on linear TV advertising which is in decline. VLV considers the government's conclusions unsound because they don't take account of Channel 4's Future4 digital strategy. Channel 4 has led the way among UK broadcasters in diversifying its income stream and implementing a forward-looking digital strategy, which so far has proved very successful and should mean it is less reliant in future on linear TV advertising as its primary source of income.

Global Player: An underlying premise of the government's proposal is that in order to be sustainable Channel 4 should become a global player. VLV does not believe this needs to be the case. Channel 4 will continue to play a very important role in the UK's broadcasting ecology if it continues to fulfil its existing remit and provide innovative, diverse, culturally specific British public service content for UK audiences, especially focused on provision for younger adult audiences.

Access to Capital: The government argues that Channel 4 needs access to capital in order to grow. While privatisation could provide access to private capital which would allow Channel 4 to invest more in digital development, for example, VLV questions whether this is necessary. Channel 4 currently has a strong balance sheet and its digital strategy is credible; it has never drawn on the borrowing facility provided by the government and has not asked for the limit on its borrowing to increase.

Channel 4 remit and publisher-broadcaster model: The government says it wants to retain the distinctive Channel 4 remit and its publisher-broadcaster model, but it has not ruled out changes to either if that is necessary for a sale to go ahead. VLV considers there is a real risk that Channel 4's remit and publisher-broadcaster model could be significantly changed if it is privatised which VLV considers would be detrimental to audiences as well as to the UK independent production sector.

Strategic partnerships: The government suggests that Channel 4 needs to be part of a larger media conglomerate to improve its ability to form strategic partnerships and maximise acquisition opportunities. VLV does not believe this to be the case. Channel 4 has already established successful partnerships with global media companies; these were formed on the basis that Channel 4 is small enough to not pose a threat to global players which means they feel more able to work in partnership.

Expansion into international markets: The consultation suggests that the future sustainability of Channel 4 depends on it retaining more rights to the content it commissions. This implies that the publisher-broadcaster model could be abandoned. VLV would oppose Channel 4 producing its own content because this is likely to reduce the diversity of content on air and undermine the UK's independent production industry.

Likely outcomes of privatisation

Decline in independent production: VLV believes that if Channel 4 is privatised it is likely its publisher-broadcaster model will need to be partially or fully abandoned. We consider it unlikely that a commercial operator would agree to the existing model because they would want to retain the intellectual property rights of the content they commission to maximise distribution income. It is also highly probable that they would want to produce their own content for the same reason. Such a change would undermine the UK's independent production industry which would be detrimental for the economy as well as for audiences because it will reduce the range and diversity of content on air which is currently produced by hundreds of production companies.

Profit before public service: The privatisation of Channel 4 would change the motivation of the corporation from being one which is dedicated to serve the public interest to one which is necessarily motivated to serve its shareholders, leading to greater investment in commercially successful content rather than public service content.

Less innovation: VLV predicts that if Channel 4 is privatised its approach to programming will be less risk-taking and audiences will be exposed to fewer innovative programmes in order to maximise commercial income. There will be a reduction in investment in current affairs, News and other less commercially attractive programming.

Reduction in UK culturally specific content: VLV predicts that there will be less culturally specific British content commissioned because this will be more difficult to sell internationally. This will mean a reduction in the telling of British stories, a key ingredient of our current successful public service broadcasting system.

Reduction in range of content: Overall the decline in less commercially attractive genres of content will lead to a reduced range and diversity of content available to audiences.

Advertising sales' houses: If a UK broadcaster buys Channel 4, there will be a reduction in competition in advertising sales houses which will be detrimental to the advertising market and UK commercial broadcasting more generally.

Over-reliance on foreign global giants: If Channel 4 is privatised and its publisher-broadcaster model is abandoned, British independent producers will become more reliant on foreign global media giants such as Netflix and Amazon to commission their content. These companies have no commitment to maintaining the UK production industry unlike Channel 4 and this puts the UK production industry at greater risk.

Conclusion: what option will benefit audiences?

VLV believes that Channel 4 should remain publicly owned for the following reasons:

Channel 4 financial sustainability: Having considered the available evidence VLV believes that for at least the mid-term Channel 4 is financially sustainable if it continues to successfully implement its Future 4 strategy. VLV does not believe that Channel 4 needs to be part of a larger media conglomerate in order to continue to play an important role in the UK's broadcasting ecology or to be able to deliver its public service remit for UK audiences.

Channel 4 remit: VLV believes it is important that Channel 4's remit remains in place so that the corporation provides an 'alternative mainstream' perspective which is popular with younger and more diverse audiences. This will help maintain the range of high quality free to air public service content audiences currently enjoy. VLV does not believe that Channel 4 will be an attractive proposition for a buyer with its existing remit and therefore, in order to privatise it, the government will have to reduce its public service commitments and possibly allow it to no longer be a publisher broadcaster. VLV would oppose both these moves.

Public service motivation: VLV believes that the underlying motivation of any broadcaster influences its creative decisions. VLV considers one of the primary benefits of the publicly owned model is that it reinforces Channel 4's public service motivation. If Channel 4 is privatised, this will lead to commercial priorities driving its creative processes. If it remains publicly owned, its motivation will be to balance its sustainability with its responsibility to deliver publicly valuable content for the benefit of audiences.

Independent production sector: Having a thriving independent production sector is both economically and culturally valuable. Under its current model Channel 4 commissions more content from independent production companies across the UK than any of the public service broadcasters. Channel 4's focus on supporting smaller production companies, which would not be awarded commissions by other broadcasters, is particularly valuable because it provides opportunities for new entrants to the sector. The benefit for audiences of Channel 4 having a wide range of programme suppliers is that it increases the number of perspectives they are exposed to; it improves representation of the UK population on screen; and it encourages new voices and innovation. VLV does not believe these benefits would be guaranteed if Channel 4 were privatised.

Headline Facts & Figures

- Viewers of Channel 4 and All 4 grew by 7% and 27% respectively last year, and by 5% and 30% respectively in the first half of 2021.
- Channel 4 contributed £992 million to the UK economy in 2019, including £247 million to the regional economy.
- Last year, Channel 4 recorded a £74 million pre-tax surplus, with net cash reserves of £201 million.
- The streaming service All 4 was boosted by people staying at home during lockdown with digital advertising revenues surging to a record £161 million.
- The corporation is two years ahead of its target to spend half of its content budget outside of London.
- Supported by Channel 4 the creative industries sector has been growing at five times the rate of the UK economy, contributing £111.7bn to the economy.
- The money spent by the independent producers that make Channel 4's programmes contributes to the wider creative economy in the UK. If privatised, much of this money would be diverted to shareholders.
- In 2019, Channel 4's activities supported around 10,000 jobs in the UK economy.