

## **A Future for Public Service Television: Content and Platforms in a Digital World**

Channel 4 welcomes the opportunity to respond to the inquiry into the Future of Public Service Television, chaired by Lord Puttnam. We believe it is an important time to be conducting such a review.

Channel 4 forms part of a carefully designed Public Service Broadcasting ecology, which also includes the BBC, ITV and Channel 5. This ecology was the result of a series of enlightened policy interventions placing a group of organisations all with different models, purposes, missions and incentives at the centre of the creative industries, providing investment, which now amounts to roughly £3bn/year, and driving growth in the UK's production sector. This has resulted in the UK developing a broadcasting sector which is envied all over the world.

Channel 4 plays an important role in this ecology as a publicly-owned, commercially-funded, public service broadcaster that reinvests its profits back into programmes, and has a statutory remit to deliver high quality, innovative, experimental and distinctive content across a range of platforms. Channel 4 operates a social enterprise business model – fully self-sufficient through revenue gained from the commercial market but with no shareholders expecting profit returns. This means we are able to reinvest as much revenue as possible back into content, at no cost to the tax payer. Channel 4's remit and model enables us to invest in programmes that purely commercial broadcasters may not, and take risks and innovate in ways that other broadcasters cannot. For example, Channel 4 broadcasts more news and current affairs in peak-time than any other PSB channel, and also tries out more new programme ideas each year than any other channel in the UK. As a publisher broadcaster, deliberately set up to stimulate the UK's independent production sector, Channel 4 works with more independent companies than ITV and Channel 5 combined.

In their recent review into Public Service Broadcasting, Ofcom found that the UK has a strong and vibrant television sector with high audience satisfaction levels, with 79% of viewers last year satisfied that the public service broadcasters were delivering on their public service requirements. It also concluded that the investment and output provided by the Public Service Broadcasters form the backbone of the sector with PSBs accounting for 85% of total UK content investment, compared to 15% investment by all the other commercial channels put together.<sup>1</sup>

Given its cultural, social and economic importance Channel 4 believes it is vital to maintain this system, as well as identifying ways in which it may be strengthened in a changing market.

### **The enduring importance of television**

The UK benefits from one of the strongest and most vibrant TV sectors in the world, in both cultural and economic terms. Programmes made by British broadcasters for British

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<sup>1</sup> Investment in non-sport originated content. Source: Ofcom Public Service Content in a Connected Society, December 2014

audiences are admired and loved across the country, and still account for the majority of primetime TV viewing despite viewers now having access to hundreds of alternative options.

The appeal of British TV programmes extends far beyond our shores. UK TV programmes and formats are sold globally to hundreds of territories, at a scale exceeded only by the US - Gogglebox alone has been exported to more than 25 different territories from the USA to Mongolia - while UK talent is garlanded with international awards.

In economic terms, the TV sector plays a vital role. At a time when politicians are looking to boost growth in the UK, the most recent Government statistics show that the creative industries – of which television is one of the largest parts – punch well above their weight as drivers of economic growth, employment and exports. The UK's creative industries are worth £76.9 Billion per year to the UK economy and are growing at three times the rate of the wider UK economy.<sup>2</sup> The UK's PSBs are at the core of this, investing over £3bn/year in UK content.

Despite the increase in competition from digital channels and online services, TV remains vitally important. Even in a connected world of digital and social media, and the near-ubiquity of smartphones and other mobile devices, people are still watching around four hours of TV a day, not counting all the programmes they watch on-demand away from their TV sets. Viewers have more choice and flexibility than ever before in how they consume TV programmes, but it is important to note that the vast majority (85%) of viewing is still to live or recorded television on the main TV set, and of the remaining 15%, 5% goes to free catch up services with PSBs dominating this segment.

Television also plays a unique cultural, social and democratic role in modern life that is not matched by any other form of media. It has the ability to shape people's perceptions of the world and each other – Channel 4's coverage of the Paralympics is a powerful example of television's ability to challenge social prejudice, with 83% of viewers stating that the coverage would improve perceptions towards people with disabilities.

### **The PSB system**

The UK's TV sector has always been underpinned by a strong PSB core. The UK's first broadcaster, the BBC, ensured that a public-spirited ethos was embedded into the broadcasting system right from the start. The creation of Channel 4 in 1982 was an equally significant moment. The new channel was specifically charged with taking an alternative approach to everything it did. It was given a remit by Parliament to produce distinctive, innovative, experimental content that appealed to the tastes and interests of a culturally diverse society. On-screen, it boosted innovation and increased the plurality of voices and views on British TV. Off-screen, its unique publisher-broadcaster model served to kick-start the independent production sector. For more than 30 years now, Channel 4 has played a vital role as part of the PSB system, with an empowering public remit underpinned by enduring values around risk-taking and diversity.

This remit, combined with a model which ensures all of our profits go back into programmes enables Channel 4 to take risks and innovate in ways that other broadcasters cannot. This

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<sup>2</sup> <https://www.gov.uk/government/statistics/creative-industries-economic-estimates-january-2015>

remit is delivered right across the business; from applying lessons learned from Big Brother's fixed rig technology to documentary shows like The Tribe or 24 Hours in A&E, through to a commitment to addressing challenging subject matter like mental illness in Bedlam or paedophilia in The Paedophile Next Door. It is evident in our commitment to cultivating new talent, best exemplified by our work with Steve McQueen during his transition from a visual artist focussing on short films to becoming one of the most demanded feature length directors in Hollywood. It also extends to our use of new technologies; Channel 4 was the first broadcaster to launch an HD variant of its main channel, the first to launch a +1 service and the first broadcaster in the world to launch an on demand service (4oD).

While the environment in which public service broadcasters operate has changed radically in recent years, the PSB system remains as relevant as ever. New forms of digital content and services from a variety of sources enrich audiences' lives in many ways, and they undeniably make valuable public and social contributions. And yet the PSBs still occupy a central and unique place within this landscape – for example, as audiences fragment ever more across digital services, no other platform or form of media comes close to matching the main PSB channels for their ability to reach mass audiences – millions of viewers in peak-time – every single day. In a world where digital media can create 'filter bubbles' of information, the PSBs play a more important role than ever in exposing people to alternative views that differ from their own and those in their social networks. As they have always done, public service broadcasters enrich people's lives through serendipity: letting people discover things that they might not have even known they were interested in, or presenting viewpoints that they would not actively choose to seek themselves. For these reasons, the PSB system not only remains relevant in a connected world, but is at least as important as it has been in the past.

This is demonstrated by the way that the values and ethos of the public service broadcasting system continue to resonate with audiences. Ofcom research shows that the public service broadcasting purposes and characteristics of informing understanding of the world, stimulating knowledge and learning, reflecting UK cultural identity and representing diversity remain important to audiences and that the value that audiences place on these has actually grown since 2011.<sup>3</sup> Viewers associate good, high quality programmes with the public service broadcasting channels and viewers trust PSBs as a key source of news in the UK – 75% of UK adults use TV as their news source and of this, 95% of TV news viewing is to the public service channels.

### **The mixed PSB ecology**

The continued success and relevance of the PSB system is in part enabled by the UK's very deliberate mixture of organisations within the system – each with different models, remits and purposes. The system is comprised of a publicly funded and publicly owned BBC, the commercially funded, commercially owned PSB-licenced ITV and Channel 5 and a publicly owned and commercially funded Channel 4. Each broadcaster has a particular set of PSB obligations, a specific business model and a distinct relationship with the UK audience, ensuring that viewers have access to a diverse and compelling range of free, high-quality

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<sup>3</sup> Ofcom 'Public Service Content in a Connected Society', December 2014 pp.22

public service content, whilst also driving competition and quality across the sector. The competition provided by the mixed PSB ecology has also encouraged increased investment by other commercial broadcasters, for whom UK originated television is now seen as an important selling point.

In particular, the BBC and Channel 4 have unique and complementary roles. Both provide high quality UK content, but have distinct models and missions ensuring that audiences get access to the widest possible range of PSB content. The BBC, is a large scale, mainstream organisation with a mission to reflect, reinforce and unite our society and culture. Its scale ensures it is well placed to deliver this role and its receipt of public funding ensures it can operate without commercial constraint. This enables the BBC to excel at things like mainstream news provision and original children's programming in ways that other broadcasters with fewer resources cannot.

Alongside this, Channel 4, as a publisher broadcaster with a model that ensures it puts all of its profits back into programming, works as a supporter of the "grassroots" with a mission to innovate, challenge and change. As we outline below, its output is more diverse and challenging than that of the other mainstream broadcasters, while its scale and reach ensures it can still connect with large mainstream audiences in ways that digital or online services cannot.

### **Channel 4's distinctive contribution to public service broadcasting**

Channel 4's unique contribution to the PSB ecology, compared to other broadcasters, can be grouped into three overarching areas:

**1. Broadcasting's creative greenhouse.** Through the range and depth of its relationships with independent production companies, Channel 4 acts as a seedbed and accelerator for new ideas in TV and digital content. It supports more than 350 production companies each year across TV, digital and film. The main channel works with substantially more independent TV production companies than any other UK channel, supporting thousands of jobs. More than 50% of hours of commissioned programmes for the main channel come from outside London, and its spend in the UK Nations continues to rise. Through Film4, we invest more in original British Film than any other broadcaster, and have cultivated the careers of Danny Boyle, Steve McQueen and many others, delivering 15 Oscars in 8 years. Channel 4's new £20 million Growth Fund invests in small and medium-sized independents across the UK, to help develop the next generations of talent. Our formats are sold globally, providing opportunities for indies to exploit international rights. In 2013 alone Channel 4 commissioned over a quarter of the British programme formats in the Top 100 in Europe and these formats grossed over \$0.5 billion dollars in estimated European broadcasting revenue.

**2. PSB challenger brand.** Channel 4 is at the forefront of innovation and risk-taking, trying more new ideas than any other broadcaster. Analysis undertaken by Oliver & Ohlbaum<sup>4</sup> shows that over the last five years, Channel 4 has commissioned, on average, 354 new programme titles each year, far more than any of the other main PSB channels. The channel reputation surveys looking at the main PSB channels that Channel 4 conducts every quarter

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<sup>4</sup> Taking Risks, Challenging the Mainstream, Oliver and Ohlbaum and Channel 4, 2014

show that viewers consistently associate Channel 4, far more than any of the other PSB channels, with taking risks with programmes that other channels wouldn't, taking different approach to subjects compared with other channels, and being experimental. Channel 4's innovation also extends to what it does off screen: 4oD was the first long-form TV catch-up service in the world, for example, and Channel 4 has a more advanced online viewer registration scheme than any of its competitor set.

**3. A catalyst for social change.** Channel 4 seeks to provide a greater range and diversity of perspectives than any other broadcaster. This means working hard to portray the full diversity of modern Britain across its entire output. And it means confronting viewers with perspectives that they might not normally come across. Research has shown that Channel 4 is consistently seen as the lead broadcaster for tackling issues that other channels wouldn't, showing different kinds of cultures and opinions, challenging prejudice, and making people think about things in new and different ways. Channel 4's model ensures it is able to explore issues in ways that shareholder owned companies expecting a profit cannot. For example, in recent months *Hollyoaks* has addressed issues like male rape, transgender, HIV and still birth, none of which are conducive to attracting or retaining large audiences but all which are important under represented issues which would not be explored by broadcasters which rely on delivering large audiences to drive profits.

Channel 4's ability to inspire change is especially valuable given its strong connection with hard-to-reach audiences, in particular young people and those from diverse backgrounds or minority groups. A significantly higher proportion of Channel 4's audience, across its TV portfolio, is aged 16-34 than that of any of the other public service broadcasters. Channel 4 has a unique ability to engage with this audience – being the only PSB in the world with a proportionately higher share of 16-34 year olds, despite significant competition for their attention. This indicates that young people will engage with high-quality PSB content when it is relevant and compelling to them – and Channel 4 believes its distinctive role with this age group will only become more important as consumption habits evolve and other PSB providers focus less on younger viewers.

Channel 4 also has a particularly strong connection with black and minority ethnic (BAME) audiences, LGBT groups and people with disabilities. Amongst all audiences, channel reputation surveys show that Channel 4 is, by some distance, the best PSB channel for showing the viewpoints of each of these groups, and its reputation amongst people from the minority groups themselves is stronger still. *Channel 4 News'* audience has a higher proportion of 16-34s and a higher proportion of BAME viewers than the news programmes on the other main PSB channels. Channel 4's efforts to bring disability sports into the mainstream – including its multi-award-winning coverage of the London 2012 Paralympics Games – are seen as world-leading. Channel 4 has continued to invest in disabled sport and in disabled talent airing the Sochi Winter Paralympics, acquiring the rights to the Rio Paralympics in 2016 and transitioning *The Last Leg* into a regular comedic take on current affairs.

In these ways, Channel 4 remains an important and distinctive force in British broadcasting. This is underlined by the historic number of creative and business awards achieved over the last two years, including 4 Oscars, 15 TV Baftas (more than any other Channel) and Digital Sales Team of the Year. Moreover, it is likely that its relative contribution to the overall PSB

system will grow in the future. The privately-owned public service broadcasters, ITV and Channel 5, do not have public service remits that cover their entire output, as Channel 4 and the BBC do. As a result, increased competitive pressures may lead to them to narrow their PSB contributions, reducing them to the minimum required in their licences, to enable them to maximise value for their shareholders.

As the PSB contributions from ITV and Channel 5 decline, the BBC and Channel 4 will play more important roles at the heart of the PSB system. This means that it will be more important than ever to safeguard a plurality of voices outside the BBC, and it means that Channel 4's distinctive contribution to PSB provision will become even more valuable – both in and of itself and through its role in providing a competitive balance with the BBC.

### **Securing public service television in the next decade**

The PSB system has evolved constantly in response to changing market conditions and technological developments. Over the last 10-20 years, the PSBs have expanded their output mix from just 1-2 analogue TV channels to each offering a suite of digital channels, including "+1" and other variants that give audiences further opportunities to view their programming. They have supported new TV platforms, such as Freeview, YouView and now Freeview Play which offer more flexible ways of viewing their channels and provide healthy competition with the main pay-TV platforms. And beyond the linear space, they have developed catch-up on-demand services that are available on a wide range of devices and platforms, and which are the most-used TV VOD services available.

The commercial PSBs have also evolved their operational strategies, developing new revenue streams and more sophisticated approaches to maximise the effectiveness of their core advertising income. Channel 4 has been particularly innovative in this respect. Through its pioneering data strategy, it has built closer direct relationships with its viewers than it ever had before. This provides benefits to viewers, who can be offered recommendations, offers and other attractive features built around the shows that they like, as well as shows they may be surprised by; and to advertisers, who can create more efficient and targeted campaigns. Channel 4 now has over 12 million registered viewers – far more than any of the other PSBs – including more than 50% of all 16-34 year olds.

Channel 4's relationship with young audiences is more important and valuable than ever, particularly given that other PSBs tend not to focus on this age group. But the challenges of engaging with this audience group – who tend to be early adopters of new services and technologies – are ever growing, and Channel 4 needs to be able to respond nimbly to changes in their behaviour and consumption patterns.

However, as Channel 4 and the other PSBs seek to respond imaginatively to market conditions and viewer expectations, they are increasingly hampered by a PSB framework that has not kept up to date with the different ways in which PSB content is being delivered, and the ways in which audiences are consuming content more generally:

- As the value of DTT spectrum declines, EPG prominence remains the main benefit and incentive for PSBs, against which are set a host of programming quotas and other regulations. It is important to ensure that the components of the PSB compact remain balanced overall, so the PSBs have the right incentives to invest in content.

- The rules around PSB universality and discoverability of content need updating to reflect the range of platforms and services on which the PSBs are increasingly providing PSB content.
- The relationship between broadcasters and the production sector needs to be reviewed to reflect the emergence of new forms of distribution, which impact on both primary and secondary rights exploitation.
- The overall framework between platforms and PSBs should also be reviewed, to ensure PSBs can seek fair value for their content services.
- There are a number of other areas which could also be updated to sustain the PSB ecology and enable PSBs to invest more in content including;
  - Harmonisation of advertising minutage rules
  - Amending the current plans to introduce spectrum pricing which could undermine PSBs' investment in content.

Whilst some of the issues are subtle in nature, their impact collectively is significant. Both individually and taken together, the risk is that if unaddressed the current framework will increasingly inhibit, rather than incentivise, investment in PSB content. The regulatory framework therefore needs to be brought up to date to address these issues.

Beyond these specific regulatory priorities, Channel 4 believes policy-makers should be careful not to undermine or damage the delicate ecosystem of public service broadcasting that has delivered so much investment and growth in our creative industries. As the Inquiry has acknowledged, we are at a crucial moment in the history of Public Service Broadcasting in the UK – with potential for major decisions on the sector that could have long-term ramifications. It is imperative that decisions made in the coming months are taken with care and consideration and that nothing is done that would damage the sector that has served as the foundation on which the success of many of the UK's creative industries are built.

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