
Channel 4 Corporation's regulatory framework

Information note

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1. Overview

The Government's consultation on the potential change of ownership of Channel 4 Corporation (C4C) closed on 14 September 2021.¹ The Lords Communications and Digital Committee is also undertaking an inquiry into the future of Channel 4, examining the case for privatisation and possible changes to the remit and regulation of Channel 4.

This information note sets out:

- C4C's obligations under the Public Service Broadcasting (PSB) regulatory framework;
- A summary of Ofcom's findings on delivery of C4C's public service remit and content duties over the period between 2014 to 2020; and
- The process and change of control provisions that might be relevant to a potential change of ownership of C4C.

As requested by the Lords Committee, Annex 1 also summarises the information Ofcom has published on the TV advertising market outlook.

¹ DCMS, [Consultation on a change of ownership of Channel 4 Television Corporation](#), July 2021.

2. C4C's obligations under the PSB regulatory framework

Public Service Broadcasting (PSB) is how Parliament ensures that UK audiences can enjoy a wide range of high-quality programmes that meet people's needs as citizens and their interests as individuals.

The regulatory framework for PSB in the UK applies to C4C and the other PSB providers: the BBC, S4C, the providers of the Channel 3 services (ITV, and STV in Scotland), and the provider of Channel 5 (owned by ViacomCBS).²

C4C and the other PSB providers collectively contribute to the fulfilment of the PSB purposes, which are set out in the Communications Act 2003.³ Ofcom is required to report at least every five years on how the PSB channels have, when taken together, fulfilled these statutory PSB purposes. Our most recent PSB review was published in February 2020.⁴

Individually, C4C and the other PSB providers must also meet a set of service-specific requirements. In return, they receive several regulatory benefits including access to spectrum, prominence on electronic programme guides and, in the BBC's case, licence fee revenues. There are also other rules applicable to C4C, which apply to all broadcasters generally, such as the requirement to observe content standards.

Below we set out the obligations and benefits that apply specifically to C4C primarily in relation to its PSB channel, Channel 4.⁵

For the purposes of this note, we do not describe the specific obligations in the current licences of the privately-owned commercial PSB providers, S4C or the BBC.

C4C's individual obligations

C4C has a specific remit set out in legislation, together with further individual obligations set out in the broadcast licence for Channel 4.

The Channel 4 licence is granted to C4C as the statutory corporation established to provide the Channel 4 service.⁶ The current Channel 4 licence will expire at the end of 2024. Ofcom has the power to renew the licence, and in so doing must set the licence conditions that it considers appropriate and determine the duration of the renewed licence.⁷

² MG ALBA (the Gaelic Media Service) is a statutory body with functions to secure Gaelic programming. It fulfils its remit principally through BBC ALBA, the Gaelic television service which it operates in partnership with the BBC.

³ Section 264(4) of the Communications Act 2003. Fulfilment of the PSB purposes must also be compatible with the PSB objectives set out in section 264(6) of the Communications Act 2003.

⁴ Ofcom, [Small Screen: Big Debate – a five-year review of Public Service Broadcasting \(2014-2018\)](#), February 2020. See also our [statement on the future of Public Service Media](#) and recommendations to Government, July 2021.

⁵ Section 264(11) & (12) of the Communications Act 2003.

⁶ Sections 23-24 of the Broadcasting Act 1990. The [Channel 4 licence](#) is published on Ofcom's website.

⁷ Section 231(7) of the Communications Act 2003.

Statutory remit

The Channel 4 television service was set up in 1982 with a unique model of being a publicly owned but commercially funded provider of public service content, which it must source from external producers.⁸

Its statutory remit is to provide a broad range of high quality and diverse programming which, in particular, demonstrates innovation, experiment and creativity; appeals to the tastes and interests of a culturally diverse society; makes a significant contribution to educational programming; and exhibits a distinctive character.⁹

In addition to providing the linear Channel 4 service, C4C has a range of statutory media content duties which it can deliver across all of its broadcast and online services including All 4, its on demand service.¹⁰ They include requirements to:

- a) make a broad range of high-quality content that appeals to the tastes and interests of a culturally diverse society;
- b) provide news and current affairs;
- c) provide content which appeals to older children and young adults;
- d) make, broadcast and distribute high-quality films, intended to be shown to UK audiences, and broadcast and distribute films (including third party films) that reflect cultural activity in the UK to audiences;
- e) support the development of people with creative talent;
- f) promote alternative views and new perspectives;
- g) promote measures intended to ensure that people are well-informed and motivated to participate in society; and
- h) support and stimulate well-informed debate on a wide range of issues, including by providing information and views from around the world and by challenging established views.

Specific licence requirements

Ofcom is required by statute to include specific conditions in the licence for Channel 4 (as well as for Channel 3 services and Channel 5).¹¹ The conditions include requirements for:

⁸ Section 295 of the Communications Act 2003. The licence for the Channel 4 service must include a requirement that C4C is not be involved, except to such extent as Ofcom may allow, in the making of programmes to be broadcast on Channel 4.

⁹ Section 265(3) of the Communications Act 2003.

¹⁰ Section 198A of the Communications Act 2003.

¹¹ All of the [PSB licences](#) are published on Ofcom's website. S4C does not have a broadcasting licence, but it is subject to quotas set by Ofcom, including quotas regarding news and current affairs, original productions, and independent productions (Paragraphs 7-9 of Schedule 12 to the Communications Act 2003).

- a) news and current affairs programming. In particular, requirements to provide high quality news and current affairs programming throughout the day, including specific time allocations or quotas as appropriate:¹²

*The current Channel 4 licence requires the broadcast of not less than 208 hours of news programming each year in peak viewing times (defined by Ofcom as the period from 6pm to 10.30pm) and the broadcast of not less than 208 hours of current affairs programming each year, of which 80 hours should be in peak viewing times.*¹³

- b) regional programme-making, specifically requirements to make a proportion of programmes outside London, and for a proportion of expenditure to be on making programmes outside London. Ofcom determines the level of these quotas, which are set out in the relevant broadcasting licences:¹⁴

*The current Channel 4 licence requires at least 35% of the hours of programming to be made in the UK outside London, and for 35% of the spend on programme making to be in the UK outside London.*¹⁵ *Within this, 9% of programme hours and 9% of programme spend should be made outside England.*

- c) advertising minutage limits (see further information below);¹⁶
- d) the broadcast of independent productions.¹⁷ In particular, there is a statutory minimum quota, currently 25% of qualifying programmes (which may be amended by the Secretary of State by way of order), and PSB providers must draw up a code of practice (to be submitted to Ofcom for approval) setting out the principles they will apply when agreeing terms for the commissioning of independent productions;¹⁸
- e) programme-making. Known as its “publisher-broadcaster” status, C4C is prohibited under the Channel 4 licence from being involved in the making of programmes for the Channel 4 service, except to such extent as Ofcom may from time to time allow.¹⁹ There is no such prohibition in the licences for Channel 3 services or the Channel 5 service.
- f) the broadcast of original productions. The definition of original productions is drawn up by the Secretary of State by order, and Ofcom sets the specific programmes quotas for each PSB at an appropriate level to ensure that the channel is consistently of a high quality²⁰; and

¹² Section 279 of the Communications Act 2003.

¹³ Condition 15(2) and paragraphs 2 and 3 of Part 1 of the Annex to the [Channel 4 licence](#).

¹⁴ Sections 286 – 288 of the Communications Act 2003.

¹⁵ Condition 8 and paragraph 6 of Part 1 of the Annex to the [Channel 4 licence](#).

¹⁶ Section 322 of the Communications Act 2003 and Ofcom's [Code on the Scheduling of Television Advertising](#).

¹⁷ Section 277 of the Communications Act 2003.

¹⁸ These requirements are reflected in conditions 11 and 12, and paragraph 7 of Part 1 of the Annex to the [Channel 4 licence](#).

¹⁹ Condition 9 of [Channel 4 licence](#); Section 295 of the Communications Act 2003.

²⁰ Section 278(6) of the Communications Act 2003 and the Broadcasting (Original Productions) Order 2004 (S.I. 2004/1652).

The quotas in the Channel 4's current licence are for at least 56% of programmes broadcast each year to be original productions overall and, in peak viewing times, 70% of programmes to be original productions.²¹

- g) Ofcom must also set a quota for Channel 4 for a suitable proportion of programmes to be programmes that are intended for use in schools.²²

The quota in Channel 4's current licence is to broadcast 30 minutes of schools programmes each year. Ofcom set the quota at this level as Channel 4's public service remit requires it to include programmes of an educational nature and other programmes of educative value. As such, we considered a specific quota for programmes that are intended for use in schools formed only a minor part of the delivery of its education remit.²³

Ofcom also has specific powers to publish criteria and impose conditions in relation to the provision of children's programmes on Channel 4 (as well as the Channel 3 services and Channel 5).²⁴ In 2018, we published the findings of our review of children's content, which looked at how we might use these powers.²⁵

Due to the changing viewing habits of young audiences, we considered that setting quotas for children's programming on the main commercial PSB channels would not be an effective approach. We recommended that the PSB providers explore new and innovative ways of reaching children and to produce a plan within a year setting out how they would improve their provision. In addition to its existing provision, C4C committed to developing a digital-first service for 13-16 year olds to run across its social platforms.²⁶ This service is yet to launch, in part due to the pandemic, and we summarise our analysis on recent C4C performance, in particular for younger audiences, later in this note.

Licence replacement process

The current Channel 4 licence will expire at the end of 2024, and a replacement Channel 4 licence will need to be in place prior to the expiry of the current licence so that audiences can continue to access the main Channel 4 service.

As part of the renewal process, Ofcom must determine the appropriate conditions for a replacement licence, to ensure Channel 4 delivers its remit and any other statutory requirements placed on it, and the duration of the new licence.²⁷ We would consult on our proposals for the conditions of the replacement licence to obtain stakeholder views before these are finalised.

C4C's other channels operate under standard broadcast licences, and the All4 on demand service is a notified ODPS service.

²¹ Condition 13 and paragraph 5 of Part 1 of the Annex to the [Channel 4 licence](#).

²² Section 296 of the Communications Act 2003.

²³ Ofcom, [Statement: Renewal of the Channel 4 licence](#), March 2014.

²⁴ Section 289A of the Communications Act 2003.

²⁵ Ofcom, [Children's content review: update](#), July 2018.

²⁶ Ofcom, [Children's content review: our response to ITV, Channel and Channel 5's plans](#), July 2019.

²⁷ Section 231 of the Communications Act 2003.

Further requirements

C4C's statement of media content policy

C4C is required to publish an annual statement of programme policy.²⁸ This statement sets out how, in the coming year, C4C will satisfy its statutory public service remit and the specific quotas and requirements outlined above. C4C's statement must also cover its media content policy and set out C4C's proposals for securing that it discharges its statutory media content duties outlined above.²⁹

Its statement must be prepared with regard to guidance drawn up by Ofcom.³⁰ C4C must monitor its performance against these statements and report on its performance for each year in the following year's annual statement. Ofcom publishes its own response to the statement each year³¹.

Restrictions on advertising minutage on PSB channels

In relation to the Channel 4 service, C4C like the other licensed PSBs and S4C must observe more restrictive rules on advertising minutage than other (non-PSB) broadcasters, which are set out in the [Code on the Scheduling of Television Advertising \(COSTA\)](#). For example, non-PSB channels must show no more than an average of 12 minutes of television advertising and teleshopping spots for every hour of transmission across the broadcasting day, while this time-limit for PSB channels like Channel 4 is seven minutes.

Accessibility

As with all television channels licensed in the UK, the PSB linear TV services are required to observe Ofcom's Code on Television Access Services (the 'Accessibility Code').³² The Code includes specific targets for each PSB service and guidance about how to provide television access services, particularly in relation to subtitling, audio-description for audiences with a visual impairment, and translation into sign language.

Ensuring regulatory standards are met

In addition to publishing information on, and analysis of, the PSB providers' performance in delivering their remits, under the current regulatory framework, Ofcom has a number of

²⁸ Section 266 of the Communications Act 2003.

²⁹ Section 198B of the Communications Act 2003. C4C's statutory media content duties are set out in section 198A of the Communications Act 2003.

³⁰ Ofcom, [Guidance note for completion of C4C combined statement of programme and media content policy](#), February 2011.

³¹ Ofcom, [Ofcom's response to Channel 4's Statement of Media Content Policy](#), June 2020.

³² Section 303 of the Communications Act 2003 requires Ofcom to draw up, and from time to time review and revise, a code giving guidance as to the extent to which linear TV services should promote understanding and enjoyment for persons who are deaf or hard of hearing, blind or partially sighted, or with dual sensory impairment. Ofcom's [Code on Television Access Services](#) is available on our website. Compliance with the Accessibility Code is a condition of the Broadcasting Act licences held by the commercial PSBs (s.307); and a requirement for the BBC under the BBC Agreement (see Schedule 4, paragraph 5(3) and Schedule 3, paragraph 9).

enforcement and monitoring powers to ensure that C4C, as well as the other PSB providers, deliver their obligations within the PSB regime.

Ofcom has enforcement powers in relation to breaches of licence conditions. C4C's specific obligations are set out as conditions of the Channel 4 licence (as set out above).³³ If Ofcom is satisfied that C4C has breached a licence condition, Ofcom has the power to impose statutory sanctions on C4C. In practice, Ofcom may do so if it considers that C4C has seriously, deliberately, repeatedly or recklessly breached a relevant requirement.³⁴ The sanctions available to Ofcom include a decision to: direct C4C to broadcast on the Channel 4 service a correction or statement of Ofcom's findings (or both); direct C4C not to repeat a particular programme on the Channel 4 service; and/or impose a financial penalty.³⁵

In the context of C4C's statement of media content policy, Ofcom has a duty to carry out a review of the extent to which C4C has discharged its media content duties and publish a report on its findings.³⁶ If we consider that C4C has failed to perform its media content duties (which apply across all its services) or comply with its requirements in relation to the preparation of a statement of media content policy, and are of the opinion that the failure is serious and is not excused by economic or market conditions, Ofcom has the power to direct C4C to take specified steps to remedy the failure.³⁷ If C4C fails to comply with such a direction, Ofcom has the power to vary the Channel 4 licence as it considers appropriate for remedying C4C's failure.³⁸

³³ Sections 40-42 and 102 of the Broadcasting Act 1990. See also Part 4 (Conditions relating to enforcement of the licence) of the [Channel 4 licence](#).

³⁴ In considering sanction, Ofcom will follow its published [procedures for the consideration of statutory sanctions in breaches of broadcast licences](#).

³⁵ The penalty must not exceed five per cent of C4C's qualifying revenue for its last complete accounting period.

³⁶ Section 198C of the Communications Act 2003.

³⁷ Section 198D of the Communications Act 2003.

³⁸ Section 271A of the Communications Act 2003.

3. Summary of Ofcom's findings on C4C's delivery of its public service remit and content duties, 2014 to 2020

Ofcom comments on C4C's performance in delivering its remit and duties in both our annual report on C4C's statement of media content policy,³⁹ and in our five-year review of C4C's performance, which we publish alongside our more general five-year PSB review. We also publish information about UK audiences' viewing habits, including in relation to Channel 4, in our annual Media Nations reports.

In this section, we provide a summary of Ofcom's previously published findings concerning C4C's delivery of its public service remit and media content duties between 2014 to 2020.

Audience performance

C4C TV channels

In our reviews, we have noted that viewing to Channel 4 has held up well in recent years in the face of the market challenges facing broadcast TV including the migration of audiences online.

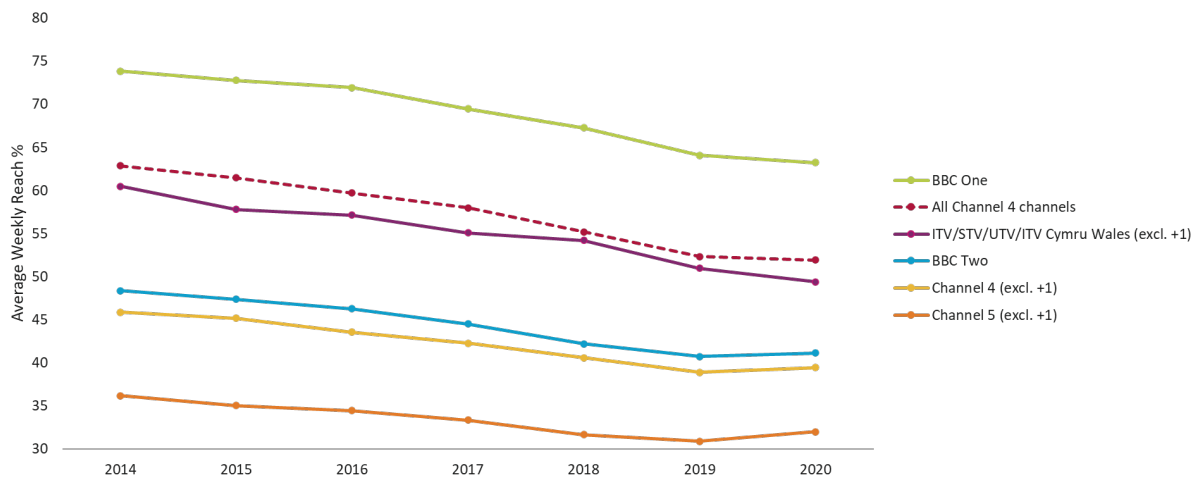
As Figure 1 shows, between 2014 and 2020, all the PSB channels experienced declines in reach. C4C remains the third-biggest UK broadcaster in terms of audience reach, behind the BBC and ITV.⁴⁰ In relation to viewing share, Channel 4's performance has remained stable at around 5%, with share across C4C's portfolio experiencing some decline (figure 2).⁴¹

³⁹ We publish this report at the same time that C4C publishes its Statement of Media Content Policy and its Annual Report.

⁴⁰ BARB (excluding C4 +1). Average weekly reach - for 15+ minutes of consecutive viewing.

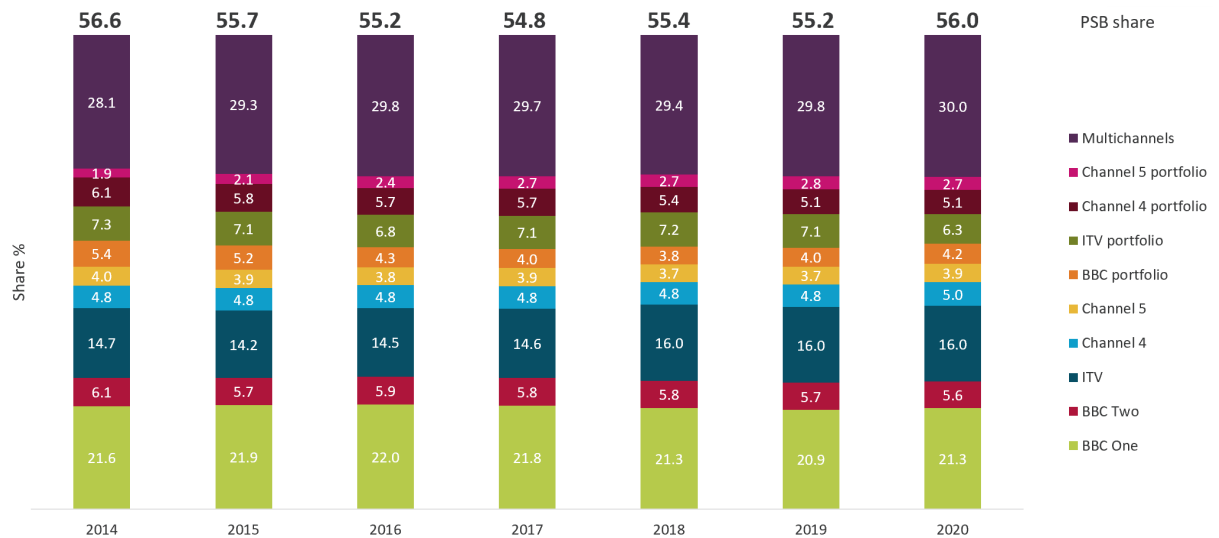
⁴¹ BARB (excluding C4 +1). Ofcom analysis of Channel 4's performance excludes Channel 4+1. This differs from the methodological approach taken by C4C for its statement, where its figures for Channel 4 include Channel 4+1.

Figure 1: Average weekly reach of the PSB channels 2014 – 2020



Source: BARB. All individuals 4+. Average weekly reach % of those that watched at least 15 consecutive minutes.

Figure 2: Average share of viewing by PSB channel/channel group 2014-2020



Source: BARB. Total TV, all individuals (4+). PSB +1s are included in their portfolio groups. All PSB share includes the main 5 (excluding +1s) and the BBC portfolio channels.

C4C’s portfolio channels⁴² play a key role in C4C’s ability to attract audiences and C4C’s core younger demographic in particular. In our annual reviews we pay particular attention to E4, C4C’s youth-focused channel. In our recent annual reviews, we have highlighted that E4’s performance has stalled somewhat as competition for younger viewers has intensified. In 2020, E4’s 16-34-year-old

⁴² E4, More4, Film4, 4seven and The Box Plus Network, including 4Music.

share fell to 3.9%, its lowest level in a decade, although it remains the second most-watched digital TV channel in the UK for 16-34-year-olds, behind ITV2.⁴³

Looking in more detail at audience performance in 2020, the pandemic had a significant impact on television viewing performance in 2020. The 'lockdown effect' prompted a surge in TV viewing to the main channels. In the initial months of the outbreak, C4C and the other PSBs benefited from increases in broadcast TV viewing, driven by increased audiences to news and current affairs. But as the year progressed and the social restrictions eased, broadcast viewing declined from its peak (although levels remained higher than in 2019)⁴⁴.

All 4 performance

In 2015, C4C re-launched its VoD player as All 4. The number of people viewing All 4 content has steadily increased. In 2016, the first full year in which viewers were able to access content through the relaunched service, 620m programme views were initiated.⁴⁵ In 2020 the number of programme views initiated through All 4-branded platforms was 1.25 billion. C4C reports that almost half of 2020 viewing was from 16-34-year olds.⁴⁶

C4C also reports that, in 2020, there were 24m viewers registered on All 4, including 80% of all 16-24-year-olds and 16-34-year-olds in the UK, making it the youngest-profiling UK PSB streaming service.⁴⁷

Industry survey data shows that in 2020 All 4 had the third highest weekly reach (11%) of the PSB players behind the BBC iPlayer (30%) and ITV hub/STV player (13%).⁴⁸ There is currently no standard cross-industry audience measurement of the minutes of viewing on broadcaster video on demand (BVoD) services so we rely on survey data and estimates of viewing time.

As audience consumption patterns changes, Ofcom is working with the industry to adopt a more comprehensive cross-media measurement system including not just TV and BVoD but also online video advertising from YouTube and social media platforms.

Social media performance

Over the last 5 years, C4C has continued to invest in its online innovation, and its significant social media presence has bolstered how it engages with audiences. There has been significant growth in the consumption of Channel 4, E4 and All 4 content on social media. As a portfolio, C4C reports that the content of its brands achieved more than 11 billion views on social media in 2020.⁴⁹

C4C news and current affairs content has proved very popular. For example, in 2020 more than 1.5 billion minutes of Channel 4 News content were watched on social media over 2020 (11% up year-on-year) and, in total across Facebook, YouTube, Twitter and Instagram, Channel 4 News had 9.5 million followers or subscribers by the end of 2020.⁵⁰

⁴³ [Channel 4 Corporation Annual Report 2020](#).

⁴⁴ Ofcom, [Media Nations 2021](#), August 2021.

⁴⁵ [Channel 4 Corporation Annual Report 2016](#).

⁴⁶ Channel 4 Corporation Annual Report 2020.

⁴⁷ Channel 4 Corporation Annual Report 2020.

⁴⁸ Data from Touchpoints 2020.

⁴⁹ Channel 4 Corporation Annual Report 2020.

⁵⁰ Channel 4 Corporation Annual Report 2020.

Performance of Channel 4 Corporation in delivering its remit and content duties

In assessing C4C's performance in delivering its remit and content duties, we routinely look at the following key metrics:

- levels of revenue;
- levels of investment in originated content across C4C services;
- the quantity of first-run originations shown across C4C services; and
- the range and type of this content.

Revenues and investment

C4C's revenues between 2015 and 2020 have been broadly static. In 2015 total revenues were £979m, in 2019, £985m and, in 2020, despite the pandemic, £934m (-5% decline year on year).⁵¹

C4C has continued to invest in digital innovation, which has enabled it to increase its digital revenues. These revenues have grown steadily in recent years. In 2020, C4C reports that digital ad revenue was £161m, now making up 17% of total corporation revenue (up from 15% in 2019).

From this revenue, C4C has continued to invest in originated content at high levels. In 2019, it spent £492m on originated content although this dropped to £370m in 2020 due to the budget cuts C4C deemed were necessary to manage the impact of the pandemic.⁵²

The vast majority (91% of total in 2020) of this originated content spend goes on Channel 4, as it attracts the biggest audiences. Over the last five years, in managing its finances in challenging trading conditions C4C has looked to protect the levels of originated spend on the main channel. This has meant C4C has cut spending on its portfolio channels and digital media, with these services becoming more reliant on repeats and acquisitions.

C4C has also generated more revenue from other sources. For example, 2018 was a strong year for film income with Film4's co-production, *Three Billboards Outside Ebbing, Missouri*, achieving significant commercial as well as critical success.

The impact of the Covid-19 pandemic on C4C finances

In the early months of the pandemic (April and May 2020), the television advertising market collapsed, and as a result C4C experienced a severe drop of around 50% in its TV advertising revenues. C4C's response included a package of cost-cutting measures including an immediate reduction of £150m in the content budget for 2020 and a further £95 million of cash savings across the business.⁵³

Due to the TV advertising market rebounding later in the year, C4C reinvested £11m into the content budget. By the end of 2020, C4C reported that overall revenues remained resilient amounting to £934m, a 5% decline year on year. C4C also achieved a significant surplus of £74m.⁵⁴

⁵¹ Channel 4 Corporation Annual Reports 2015 - 2020.

⁵² Channel 4 Corporation Annual Report 2020.

⁵³ Channel 4 Corporation Annual Report 2020.

⁵⁴ Channel 4 Corporation Annual Report 2020.

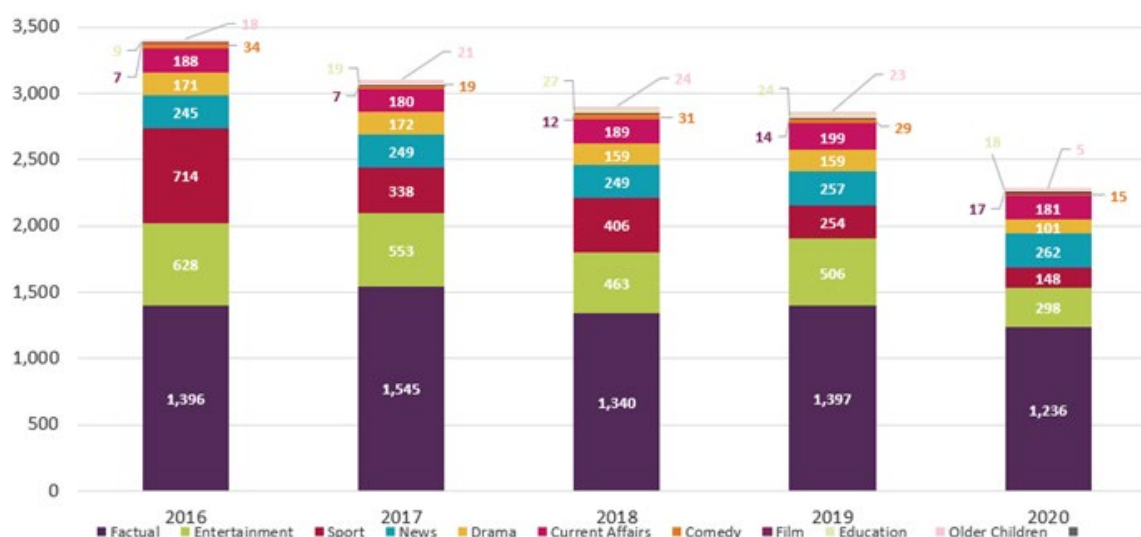
C4C forecasts that it will emerge in a strong position from the impact of the pandemic. It forecasts that its revenues in 2021 will exceed £1bn and predicts this financial position should enable it to increase the content budget by £40m in 2021 and 2022.⁵⁵

The quantity and range of originations shown across C4C services

C4C routinely exceeds its originations requirements on its main channel [referenced above]. In 2020, Channel 4 achieved 60% of overall hours of originated programmes (quota: 56%) and 78% in peak hours (quota: 70%).⁵⁶

Although the proportions of first-run originated programmes across Channel 4's TV portfolio has remained relatively stable, Figure 3 shows some decline in volume in the last five years.⁵⁷ In 2016 the number of sports hours increased significantly due to C4C's extensive coverage of the Rio Paralympic Games. Changes to the programme schedule following the Covid-19-related budget reductions (including the delay of the Tokyo Paralympic Games to 2021) led to a significant reduction in the volume of first-run originated content on Channel 4 and the portfolio channels in 2020. There were corresponding increases in the volume and shares of acquisitions and repeats.

Figure 3: Hours of first-run originated programmes on Channel 4 and portfolio channels, by genres: 2016-20



Source: Channel 4 Annual Reports 2016 – 2020.

C4C's performance in delivering its remit and content duties

Our reviews have concluded that C4C has largely met its remit and media content duties between 2014 and 2020. Every year we have found it showed a broad range of high-quality programmes reflecting the UK's diversity, with respondents to our audience surveys consistently rating Channel 4

⁵⁵ Channel 4, [Channel 4 Annual Report 2020: Record financial surplus and significant digital growth – Channel 4 strongly positioned to deliver future impact for UK](#), June 2021.

⁵⁶ Channel 4 Corporation Annual Report 2020.

⁵⁷ Channel 4 Corporation Annual Reports 2016 – 2020.

more highly than other PSB services in taking creative risks, as well as in tackling issues that other broadcasters would not, and enabling alternative voices to be heard.

Audiences also place significant value on its news and current affairs output as a trusted and independent take on national and international events.

We consider that C4C has successfully innovated online as it continues to seek ways to maximise the reach and impact of its content.

Channel 4 has also met or exceeded its annual quotas for production spend and hours in the nations and regions, and has provided targeted support to producers around the UK which has helped develop their skills and scale. We consider that successful implementation of the '4 All the UK' relocation programme should bolster its investment and representation outside London and strengthen its relationships with producers throughout the UK.

We have also identified some recurring concerns. Over the last five years, C4C has not shown as many new and one-off programmes on screen as the previous five-year reporting period. While popular returning series are important to attract audiences it is equally important that C4C continues to experiment and take risks with new content.

There have also been declines in the overall number of producers supplying C4C and, in more recent years, the number of producers new to C4C. Whilst this is in part explained by industry consolidation, sourcing content from a diverse range of producers is core to C4C's remit.

We have also raised concerns about C4C's levels of investment in content that appeals to older children, and in educational output for 14-19 year-olds. C4C has since increased spend in both these types of content but this investment has fallen back in 2019 and 2020 (investment decline in 2020 is explained in part by the impact of C4C's response to Covid-19). In April 2019, C4C made further commitments to Ofcom to develop an online 'teen strand', which was due to launch on E4's social media platforms in the first half of 2020. As of 15th September 2021, this was still to launch. C4C has recently announced that it will triple its level of investment in this strand.⁵⁸

⁵⁸ [Channel 4 response to DCMS Consultation on Potential Change of Ownership of C4C](#), September 2021.

4. Provisions relevant to a potential change of C4C ownership

The Government's consultation on the potential change of ownership of C4C closed on 14 September 2021. Following this consultation, we understand that Government will consider the responses and take a decision on whether to pursue a change of ownership.

We have set out below the relevant process and change of control provisions that might be relevant to a potential change in ownership.

Since C4C is a statutory corporation,⁵⁹ primary legislation would be required to transfer ownership to a new entity and ensure that the obligations imposed on C4C as part of the PSB framework, if retained, are transferred to any future provider of the Channel 4 service. Ofcom would also need to make changes to the Channel 4 licence to reflect the change in ownership and any new remit.

Change of control provisions

We consider that the change of control provisions outlined below might be relevant to a potential change of ownership of Channel 4.

Competition Merger Control⁶⁰

If a buyer acquires total or partial control, a transaction involving the C4C business would meet the threshold for competition merger control regardless of the buyer, as C4C's turnover in the UK exceeds £70 million.⁶¹ C4C's total revenue in 2020 was reported as £934 million.⁶²

Competition merger control is a two-stage assessment process carried out by the Competition and Markets Authority (CMA). It can take place in relation to either an anticipated or a completed merger, and in either case the test is whether the merger has resulted, or may be expected to result, in a substantial lessening of competition.

Media Public Interest Intervention⁶³

For the reasons set out above, if a buyer acquires total or partial control of the C4C business, the transaction would meet the threshold for public interest merger control regardless of the buyer.⁶⁴

⁵⁹ Section 23 of the Broadcasting Act 1990.

⁶⁰ Chapter 1 of [Part 3](#) of the Enterprise Act 2002.

⁶¹ A "relevant merger situation" is defined in section 23 of the Enterprise Act 2002 as a merger where the turnover of target exceeds £70m or merger leads to or exacerbates a situation in which 25% or more of the goods or services of a particular description are, in a substantial part of the UK supplied by or to the same person.

⁶² [C4C Report and Financial Statements 2020](#).

⁶³ Chapter 2 of [Part 3](#) of the Enterprise Act 2002.

⁶⁴ A "relevant merger situation" is defined in section 23 of the Enterprise Act 2002 as a merger where the turnover of target exceeds £70m or merger leads to or exacerbates a situation in which 25% or more of the goods or services of a particular description are, in a substantial part of the UK supplied by or to the same person.

The Secretary of State would have the power to intervene on any of the existing media public interest grounds that are set out in legislation,⁶⁵ or on new grounds subject to Parliamentary approval. The existing grounds include, among others, the need for a “sufficient plurality” of persons with control of broadcasting enterprises serving a particular audience. Since public interest intervention is discretionary, it need not happen.

A public interest intervention would require Ofcom to give first stage advice on whether it may be the case the merger might operate against the public interest.

The Secretary of State may then refer the issue to the CMA for second stage advice, and would then make a final decision on whether to make an adverse public interest finding and impose remedies in relation to the merger.

Restrictions on holding a broadcast licence

There are a number of restrictions that may be relevant to a change in the holder of the Channel 4 licence. The disqualified persons restrictions, as set out in primary legislation, prevent certain bodies or persons from holding all or specific types of broadcast licences.⁶⁶

Ofcom also has an ongoing duty to remain satisfied that broadcast licensees are fit and proper to hold a broadcast licence,⁶⁷ including in relation to any future holder of the Channel 4 licence.

Licence conditions

The main Channel 4 licence does not contain change of control or licence transfer conditions (as current laws do not provide for a change of control to occur).

However, in addition to the licence to provide the main Channel 4 service, C4C also holds a number of other standard form broadcast licences, in relation to which there are relevant change of control and licence transfer conditions. Ofcom's consent would be required to transfer any of these licences to a new owner and notice to Ofcom is required for change of control over such a licence.

⁶⁵ [Section 58](#) of the Enterprise Act 2002.

⁶⁶ The disqualified persons restrictions are set out in Schedule 2 of the Broadcasting Act 1990 and include: (a) religious bodies are prohibited from holding licences for Channel 3, Channel 5, national sound broadcasting and multiplexes (Ofcom is given discretion for all other licence types to determine if it is appropriate for a religious body to hold a licence); (b) advertising agencies are prohibited from holding any broadcast licence; (c) political bodies and local authorities are prohibited from holding any broadcast licence; (d) BBC, C4C and S4C are prohibited from holding Channel 3 or Channel 5 licences; (e) publicly-funded bodies are prohibited from holding most radio licences; (f) there is a general disqualification on the grounds of undue influence of political bodies, local authorities and publicly-funded bodies.

⁶⁷ Section 3(3) of the Broadcasting Act 1990.

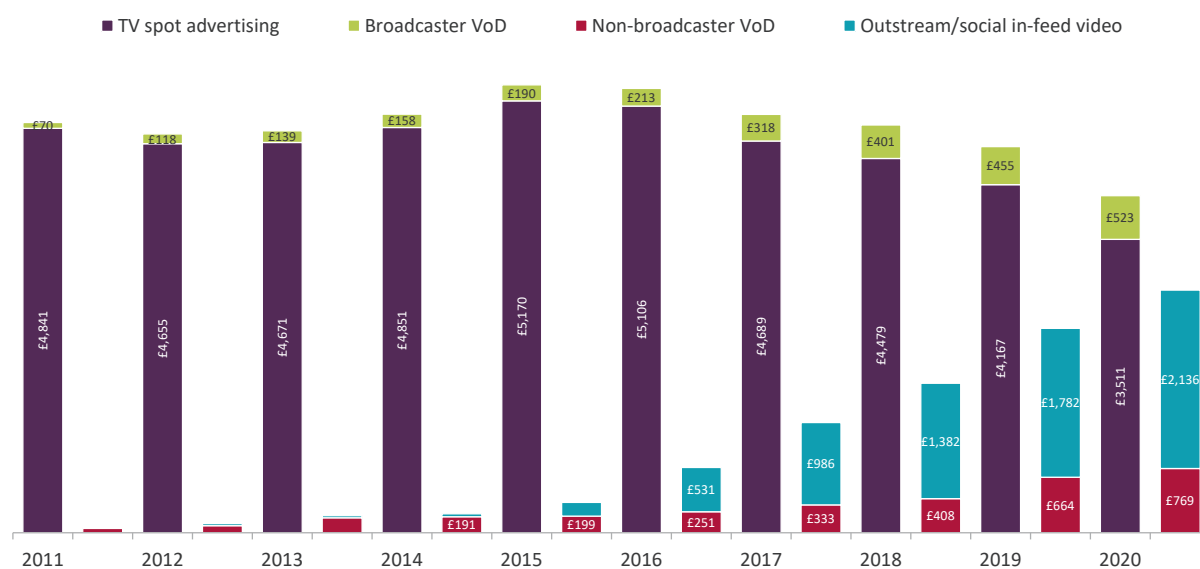
A1. The advertising market outlook

TV advertising remains a critical source of revenue for C4C as well as the commercial broadcasters

As Figure A1 shows, before the Covid-19 pandemic, linear TV spot advertising revenues (which makes up the vast majority of TV advertising revenue) had already been in decline, contracting by £1bn in real terms (-19%) between 2015 and 2019.⁶⁸ Macroeconomic factors such as weaker business confidence and reduced consumer spending resulting from Brexit are likely to have played a significant role in this decline. Fundamental shifts in how audiences consume TV content are also likely to have contributed.

The decline in linear TV spot ad revenues continued in 2020 because of the pandemic, with revenues falling a further 16% year on year to £3.5bn. The UK's commercial PSBs (including their digital channels) have experienced a collective year-on-year decline of 14% in real terms in 2020.⁶⁹ C4C and other commercial broadcasters have increased their advertising revenues from VOD and this has compensated in part for the decline in traditional linear TV advertising.

Figure A1: UK TV and online video advertising expenditure (2011-20, £m)



Source: AA/WARC Expenditure Report. TV spot advertising excludes sponsorship and product placement. IAB UK/PwC Digital Adspend Study for online advertising (pre-2017 broadcaster and non-broadcaster VOD breakdowns are estimates from AA/WARC). Figures are adjusted for CPI at 2020 prices. Note: 'Outstream' or 'social in-feed video' advertising refers to standalone video ads that sit outside a stream of video content. This format includes ads that appear on social media feeds, as well as standalone video ads on news websites. This category also includes a very small amount of other video advertising types (about £5m in 2020).

There is uncertainty about the speed of the recovery in the TV advertising market. Forecasts from AA/WARC Expenditure Report and GroupM currently project that revenues for total TV advertising

⁶⁸ Ofcom, [Media Nations 2021](#), August 2021.

⁶⁹ Ofcom, [Media Nations 2021](#), August 2021.

will increase by 8.8% and 10.6% in 2021 respectively, with a further 2.1% and 3.2% increase in 2022, although this will still not fully offset the declines resulting from the pandemic. The ongoing recovery in television advertising is reflected in ITV's recent Q1 2021 trading update, which reported that advertising revenues for April 2021 were up 68% compared to April 2020, while the four months to the end of April were up 6% compared to the same period in 2020.⁷⁰

Beyond 2021, growth in TV advertising revenue is forecast to come mainly from BVoD. AA/WARC Expenditure Report estimates a 13.9% increase in this medium in 2022, and GroupM forecasts an increase of 19.4%. On the other hand, TV advertising, excluding BVoD, is expected to have little or no growth in 2022 (with AA/WARC Expenditure Report predicting 0% growth and GroupM 0.8%).

⁷⁰ [ITV Plc Q1 2021 trading update](#).