

Submission to Ofcom's consultation on
the renewal of the Channel 4 licence

pact.

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Introduction

- 1) Pact is the trade association which represents the commercial interests of the independent production sector. The sector produces and distributes approximately half of all new UK television programmes¹ as well as content in digital media and feature film.
- 2) The UK independent television sector is one of the biggest in the world. Despite the difficult economic climate, independent television sector revenues have grown from £1.3 billion in 2005 to nearly £2.4 billion in 2011.²
- 3) In 2011, the four main terrestrial network groups (the BBC, ITV, C4 and Five plus their spin-off channels) accounted for an estimated 82% of UK TV primary commissions to the independent sector, down from 86% in 2010.³
- 4) Pact welcomes Ofcom's proposal to renew the Channel 4 licence for a further ten years. This is in line with the recent renewal of the licences for Channel 3 and 5 for the same period and will provide important continuity and certainty in the commissioning cycle which is vital for the independent production sector.

¹ Ofcom, Communications Market Report 2010: independents produced more than 50% of qualifying network programming by hours and 46% by value

² Pact Census Independent Production Sector Financial Census and Survey 2012, by Oliver & Ohlbaum Associates Limited, August 2012

³ Pact Census 2012

Executive Summary

- 1) Pact welcomes Ofcom's proposal to renew the Channel 4 licence for a further ten years. This is in line with the recent renewal of the licences for Channel 3 and 5 for the same period and will provide important continuity and certainty in the commissioning cycle which is vital for the independent production sector.
- 2) Pact agrees that the current Channel 4 licence conditions are largely appropriate and that the following quota requirements will remain at their current levels; for independent production, Out of London, original programming and UK news and current affairs.
- 3) Specifically on the Out of London quota, we want to stress that Channel 4's commissioning spend should be more focussed on returning series. This is not the case for many commissions outside of London at the moment. A better balance here would create more sustainable businesses in the longer term.
- 4) Pact supports the proposal to increase the quota for programmes commissioned out of England from 3% to 9%. However, there should be greater transparency through the publication of the annual quota spend for each of the Devolved countries. We also call, in line with the recent announcement around a strategy for Scotland, for a strategy for Wales, Northern Ireland and the English Regions too.
- 5) In terms of schools programming, given how low the current quota is, it would seem irrelevant whether it is maintained or not. However, we would like to reiterate the importance of Channel 4 meeting its obligations under the Digital Economy Act 2010 with regard to making media content that appeals to older children and young adults across its services.
- 6) Pact also sets out a number of comments on the assessment made of market changes and future challenges for C4C. In particular, we challenge the assumption that the costs of programmes are increasing given that independents are now co-investors in content, sharing the risk and innovating to the benefit of the sector and UK exports.

Proposals for licence conditions for the renewed Channel 4 licence

Consultation Question 1: Do you agree with Ofcom's view that the current licence conditions remain largely appropriate to securing Channel 4's obligations?

2.1 Pact agrees that the current licence conditions are largely appropriate and we accept the proposals that the quota requirements will remain at their current levels, meaning that:

- The independent production quota should remain at 25%;
- The Out of London production quota should remain at 30% in value and 35% in volume;
- The original programming quota should remain at 56%, with 70% in peak-time;
- The UK news and current affairs quota should remain at 208h per year.

2.2 The quote for 25% independent production is a legislative requirement for all Public Service Broadcasters (PSBs) in the 2003 Communications Act. This provision cannot be changed without primary legislation which is unlikely to happen in the near future. We therefore recommend supporting that this quota is kept at its current level.

2.3 With regard to the Out of London production quotas, we want to take the opportunity to stress that the nature of Channel 4's commissioning spend should be more focussed on returning series. At the moment, too many commissions outside of London are not focused in this way. We need to achieve a better balance between more returning series and the channel working with more producers. For example, the fact that there are around 500 producers that receive one commission every two years is not a sustainable business model. Channel 4 needs to focus on longer running series in order that the sector can build more sustainable businesses.

Consultation Question 2: Do you consider it would be appropriate to increase the out of England quota on the Channel 4 service? If so, please set out the reasons for setting a particular level for the quota and for the rate of increase to this level?

3.1 Pact supports Channel 4's proposal to increase the quota for programmes commissioned out of England from 3% to 9%. We recognise that in 2012, Channel 4 commissioned 7% of its programmes out of England and that C4C argues that the 9% quota increase will be sustainable over the next 10 year licence period.

3.2 However, given the interest and increasing pressure from the Devolved Assemblies, we call on Channel 4 to publish a breakdown of the 9% quota spend on an annual basis, demonstrating how the money is being spent in each of the Devolved countries. Further transparency of spending in this area would be very welcome.

3.3 Pact welcomed the Channel 4 strategy for Scotland to engage more effectively with Scottish independents encouraging the growth of more returning series by strengthening ideas and skills development. Similar strategies should also be implemented in Wales, Northern Ireland and the English Regions.

Consultation Question 3: Do you agree with our proposal to leave the existing licence condition for schools programming unchanged? What role do you consider the main Channel 4 service should play in delivery of its education remit? Are the existing licence conditions appropriate to this?

4.1 Under its current licence Channel 4 is required to include programmes of an educational nature and other programmes of educative value. The specific quota for programmes intended for use in schools is very low at a minimum of 30 minutes per year. Pact notes that C4C have proposed that this schools programming requirement is removed entirely, but this requires legislation and is a matter for Parliament. Given how low this quota is, it seems irrelevant whether it is maintained or not. However, at this point we want to reiterate the importance of C4 meeting its duties to make media content that appeals to older children and young adults across its services. It should be doing more for older children and Pact questions whether its obligations under the Digital Economy act 2010 (Section 22) are being fully met.

2) C4C must, in particular, participate in—

- (a) the making of relevant media content that consists of news and current affairs,*
- (b) the making of relevant media content that appeals to the tastes and interests of older children and young adults,*

4.2 The view from the independent sector is that Channel 4's demographic is older than probably the channel would like. After its initial success in the 1990s the audience watching the channel are arguably the same as before, they are just getting older. In order for the Channel to sustain itself in the future, it needs to focus on children and a younger audience going forward.

3.3 Overall, Pact supports Channel 4's aim as outlined in the consultation document to include educational programming within TV programmes on the main channel rather than as bespoke commissions.

Consultation Question 4: Do you agree with the assessment set out of the market changes and future challenges for C4C in sustaining delivery of Channel 4 and its licence conditions?

5.1 Pact would like to take the opportunity to comment on the challenges identified by Ofcom and raise a number of additional points with regard to the relationship that independent producers have with Channel 4.

5.2 Ofcom identifies the main challenge for Channel 4 in delivering its obligations as the ability for C4C to sustain a cross-subsidy model to invest in content that fulfils its distinctive remit and attracts and retains audiences to view it.

5.3 In response to the points made at 4.29 in the consultation document, Pact would make the following points:

- The UK TV advertising market is now recovering to pre-recession levels;
- The strength of C4's audience share depends on the strength of its commissioning decisions;
- Pact would challenge the assumption that the costs of programme are increasing given that independents are now co-investors in content and sharing the risk. The success and growth of the TV sector over the last ten years has been due to the Communications Act allowing previously small production companies and individuals the stability to invest, innovate and grow benefitting the sector as a whole;
- UK TV exports continue to increase year-on-year, demonstrating that UK content travels well and it is absolutely possible to operate in a global marketplace whilst focusing on UK viewers;
- We would question what the barriers are to C4 getting on to distribution platforms, as they are currently on Iplayer and connected TVs. Universal reach guaranteed by the PSB is an obligation that they must carry and one which Pact supports;
- Given C4's unique status as a PSB publisher-broadcaster, it has a responsibility to develop the UK independent production sector by working with as many effective producers as possible, to reflect the diversity of UK TV both on and off screen.

Consultation Question 5: Do you agree with our view that the Channel 4 licence should be renewed for a ten year period? If not, please set out an alternative duration and reasons for it?

6.1 Pact agrees that the Channel 4 licence should be renewed for a further ten years. Pact recognises that the Channel 3 and Channel 5 licences have just been renewed for a 10 year period so it would seem sensible to take the same approach with Channel 4. We appreciate that this would provide for greater business continuity planning and long term certainty for decisions made around planning and commissioning.