

Channel 4 response to House of Lords Select Committee on Communications inquiry into the British film and television industries

Summary

- 1) The creative economy is one of the most vibrant and fast-growing sectors in the UK: currently generating around £60 billion per annum in gross value added and employing around two million people across the UK¹. These high-profile industries also make vital cultural contributions – telling stories about Britain to each other and the rest of the world.
- 2) Within this, Channel 4 makes a substantial contribution across television, film and digital media. Channel 4 works with over 300 independent production companies every year, contributes an estimated £2bn a year of Gross Value Added (GVA) and is responsible for an estimated 22,000 jobs across the creative industries of the UK². At the same time, Channel 4 has achieved considerable critical success across all its genres – in 2008 Channel 4 was named Channel of the Year at the Broadcast Awards, and has won more BAFTA TV Awards and RTS Programme Awards than any other individual channel – most recently with 8 RTS wins in genres including drama, news, history, comedy, and factual entertainment.
- 3) Channel 4 is also one of the most significant supporters of film in the UK – and has financed many of the defining British films of the last 25 years (see Appendix 1). The most recent slate of films – including *Hunger*, *Happy-Go-Lucky*, *In Bruges* and *Slumdog Millionaire* - has led to another successful year for Channel 4's in-house film arm Film4, with awards from the Cannes Film Festival, the British Independent Film Awards, the Golden Globes and most recently 8 Oscars for *Slumdog Millionaire* – giving Channel 4 13 Academy Award wins in the last 5 years. Few, if any, of these films – which stretch from comedy capers to hard-hitting drama, would have been made without the unique involvement of Film4 – which is dedicated to funding cutting-edge, innovative British films and developing the very best of British creative talent.
- 4) While the rapid take-up of new digital technologies has created exciting new opportunities for the consumption and distribution of British content, the transition to digital is also presenting significant, structural challenges to the traditional business models of commercially funded broadcasters. As television increasingly competes with new forms of digital media for audiences, television advertising revenues are declining and subsequently all commercially funded PSBs are facing considerable financial pressures that are restricting their ability to invest in high-quality PSB content.
- 5) Recent reports from both Government and Ofcom have recognised the profound structural challenges facing the commercial broadcasting sector - and in particular the instability of Channel 4's current business model, which funds public service content from the revenues gained from its commercial activities. The Government's recent Digital Britain interim report has recommended that a new PSB institution be established to compete with the BBC, with Channel 4 at its heart but with sufficient scale to ensure it can compete in a "multi-media, multi-platform world".³ As a publicly-owned institution with a 26 year history of using commercial returns to provide public and economic value, it is essential that Channel 4 is at the heart of any new institution. Channel 4 is currently in discussions with the Government over the best way of creating a second organisation with the remit, scale and experience needed to be an effective provider of PSB plurality in the digital age.
- 6) Audiences clearly value and enjoy British content and stories that are relevant to their own sense of history and culture. The Committee's inquiry is a timely opportunity to examine the challenges facing future investment in television and film, and to help create the right conditions that support investment in high-quality British content across television, film and digital media, and particularly the kinds of innovative, risk-taking content for which Britain is internationally renowned.

¹ DCMS Creative Industries Economic Estimates 2009

² The impact of Channel 4 on the UK independent sector, creative industries and the economy, PWC report, 2006

³ "Putting Viewers First", Ofcom's 2nd PSB Review, 2009

What do the UK film and television industries currently contribute to the UK economy and British culture? In what ways might this contribution be enhanced?

- 7) The UK's creative economy is the largest creative sector in the EU, responsible for around two million jobs across the UK and generating around £60 billion per annum in GVA⁴. In recent years the creative industries have grown faster than the rest of the economy, and as traditional manufacturing industries and services decline, these industries should be seen as a priority area for the growth of the British economy as a whole.
- 8) The UK content industries make particularly strong contributions to this economy – with radio and TV generating an estimated £5.1bn of GVA to the UK economy in 2006 and employing nearly 110,000 people.⁵ Similarly, in 2006 the core UK film industry (film production plus distribution and exhibition of UK films) contributed £1.5bn directly to GDP, and employed nearly 39,000 people⁶. Channel 4's own contribution to the creative economy is significant – as a publisher-broadcaster all of its investments help to stimulate the wider creative industries, and it is estimated that this value is worth up to £2.2bn in GVA, responsible for up to 22,000 jobs a year.⁷
- 9) TV and film are also a core part of the fabric of British cultural life. Ofcom's four purposes of public service broadcasting – *"increasing our understanding of the world through news and analysis, stimulating knowledge and learning, reflecting UK cultural identity and making us aware of different cultures and alternative viewpoints"*⁸, reflect the cultural significance of television and film and their essential role in reflecting the lives of UK citizens to each other and to the rest of the world.
- 10) Channel 4 was launched in 1982 as a publicly-owned, not for profit broadcaster with a clear mission to provide an alternative public service offering to the BBC and a specific remit largely focused on innovation, creativity and diversity. It has always been commercially self-sustaining through its cross-subsidy model, which invests the profits made from more commercial programming into less profitable genres - such as news and current affairs. Channel 4 was established as a publisher-broadcaster with no in-house production capacity, and therefore has a unique role in finding and developing creative talent from across the UK. It has helped to break and develop the careers of some of the UK's brightest stars - from comedian Peter Kay and newcomer Andrew Garfield, to directors including Danny Boyle, Stephen Frears, Shane Meadows and Kevin MacDonal and writers such as Peter Morgan and Simon Beaufoy. Channel 4 also makes significant investments in industry training schemes and development initiatives to help find the next generation of talent.
- 11) Since its launch Channel 4 has played an essential role in promoting the production and distribution of high-quality, distinctive UK-produced content across television, film and digital media, and recent highlights include high-quality drama (*The Devil's Whore, Red Riding*), current affairs programmes (*Dispatches, Unreported World*), new comedy (*Free Agents, The Inbetweeners*), major series on arts and religion (*Big Art Project, Christianity: A History*), innovative educational content (*Battlefront*) and award-winning films (*Hunger, Slumdog Millionaire*). This diverse contribution to high-quality content has been recognised by audiences and critics alike - in 2008 Channel 4 won more awards than ever before, at the Royal Television Society, the BAFTAs, the Golden Globes and the Oscars, and 2008 peak-time share was at an all-time record.
- 12) In 2008 Channel 4 set out four core public purposes, which build on its statutory remit to capture in greater detail the value of its activities. These are to:
 - nurture new talent and original ideas;
 - champion alternative voices and fresh perspectives;
 - challenge people to see the world differently; and
 - inspire change in people's lives

⁴ DCMS Creative Industries Economic Estimates 2009

⁵ DCMS Creative Industries Economic Estimates 2009

⁶ UK Film Council Statistical Yearbook 2007/08

⁷ The impact of Channel 4 on the UK independent sector, creative industries and the economy, PWC report, 2006

⁸ Ofcom's Second PSB Review Phs 1, p4

These core values are at the heart of all Channel 4 commissioning – across television, digital media and film.

- 13) Film4 is fully funded from Channel 4's core programming budget and has been an integral part of the Channel 4 network since launch. Film4's brief has always been to help sustain the British independent film sector, and focuses on working with writers, producers and directors to develop innovative projects that resonate with UK audiences, as well as breaking new talent and providing British film-makers with international platforms. Film4 has invested in some of the UK's most important domestic stories - from *My Beautiful Laundrette* in 1985, about a relationship between a Pakistani man and a member of the National Front, to last year's *Hunger*, exploring the IRA's hunger strikes of the 1980s, and has developed projects from *Slumdog Millionaire* – where Film4 optioned the novel and commissioned writer Simon Beaufoy to travel to India to research the script, to *This is England*, which was borne out of a routine meeting between Film4 executives and director Shane Meadows.
- 14) Film4's location within Channel 4, with Tessa Ross heading both Film4 and the television drama department, also creates greater opportunities to nurture talent and develop creative ideas across the board. This set-up provides the flexibility for film-makers to screen projects as single dramas on the core channel, as well as giving opportunities to TV talent that may have aspirations to work in film. For example, the Bafta-winning *Touching the Void* was initially conceived as a TV documentary, but was subsequently given an increased budget and theatrical release when spotted by Film4, and *Hunger* – which in 2008 won the Camera D'or at Cannes, was the result of a long-standing relationship between Channel 4's arts commissioner Jan Younghusband and Turner-prize winning artist Steve McQueen.
- 15) Channel 4 has made significant cultural and economic contributions across television, film and digital media for the last 26 years, and in 2008 achieved considerable commercial and critical success. Unlike some other more purely commercially driven broadcasters, Channel 4 remains committed to its remit as a public service broadcaster, and 2008's *Next on 4* blueprint outlined its intentions to continue playing a key role as the main source of UK-wide plurality in PSB content alongside the BBC –and to enhance its original remit through digital media, regional production, new talent, documentaries and children's content. These proposals sought to provide a wide range of UK-produced content that serves the broadest possible range of audiences.
- 16) However, as outlined below, the commercially funded broadcasting sector is currently facing dramatic structural challenges that are undermining its ability to make the revenues from television advertising needed to invest in high-quality PSB content. A new structural solution is needed urgently if PSB investment is to be maintained or even enhanced.

How do the current UK arrangements for distribution and exhibition of films affect the commercial success of the film industry? How might long run changes in international film production and distribution affect the UK film industry and its export potential over the next decade? To what extent is the raising of finance an inhibiting factor in UK film projects?

- 17) Due to their ability to drive subsequent distribution in media such as DVD and television, theatrical distribution arrangements are fundamental in determining the commercial success of a film, and can often be the key to getting a film made at all. Channel 4 is concerned that the current UK arrangements for distribution make it difficult for British films to get the kinds of widespread releases or make the kinds of returns necessary to support a strong, profitable indigenous British film industry.
- 18) For example, theatrical exhibition space in the UK is dominated by major studio films – just 10% of all UK cinema screens are available to independent films. Often studios use access to premium 'blockbuster' films to make distributors and exhibitors show less popular studio films – through a process of 'block-booking'. (Pay TV slots are similarly dominated – making it harder for independent film-makers and independent distributors to benefit from this additional revenue stream.) As a result, independent British films – which do not have the same kind of leverage, are often forced into having smaller distribution releases and shorter release windows - even if there is considerable audience demand for that film. For example, Film4's *This is England* was a profitable box-office film that could have had an extended cinema run, but many cinemas had to replace it with less profitable studio films due to these block-booking arrangements.

- 19) The emergence of digital film, which is significantly cheaper and easier to print and distribute than celluloid, has created an opportunity for independent films to challenge this studio dominance. While inevitably the sheer financial muscle of studios will always guarantee it marketing clout with which to influence audiences and buy exhibition capacity, the cost savings and logistical advantages of a UK-wide digital cinema network properly harnessed might have the effect of lessening the studios stranglehold. However, it is important to be aware that in order to harness this opportunity and create greater opportunities to showcase independent films, the initial investment in the digital infrastructure needs to be followed up by significant support and sustained investment in the marketing of independent films.
- 21) The UK's theatrical terms with the exhibitors are also particularly tough on independent film-makers – with the majority of box-office returns going to the cinemas and distributors that bring the film to market rather than the film's producers (the UK has one of the highest exhibitor shares in the world – allocating up to 75% of a film's box office revenue to cinema owners). The distributors that bring the film to the market use the remainder to recoup their marketing costs. This means that even when films are successful in the cinemas – such as *This is England* or *Last King of Scotland*, Film4 often does not recoup its investment until the DVD and video-on-demand cycle, if at all. Film4 for instance, estimates that it will only generate limited revenues from *Slumdog Millionaire*, despite it being a global box office hit. Commercial equity investors are therefore highly unlikely to take risks on film investments due to the difficulty in getting profitable returns – making Film4's early risk investment in films even more essential in raising the finances needed to get distinctive British films made.
- 22) It is therefore difficult for a UK film company to make significant profits unless it is a major distribution house or if it is the majority financier of a large slate of films. Film4 does not have the necessary resources for either of these strategies, and as part of a public service organisation with a remit to offer distinctive content and champion alternative voices, Film4's strategy has therefore focused on developing new creative talent and stories that have resonance to a British audience.
- 23) The theatrical terms and release arrangements outlined above, combined with the size of the domestic market, highlight the current challenges for growing a financially sustainable independent British film industry. Other countries have made specific efforts to support domestic film in response to the dominance of the US market – for example in France box office revenues are taxed to create a fund specifically for French –language films, and even in the US the kinds of block-booking arrangements outlined would be deemed anti-competitive. However, while promoting film production through the introduction of the British tax credit and establishing a dedicated film agency, the UK has previously been reluctant to address these kinds of distribution issues. This has had the unintended consequence of limiting opportunities for indigenous British films that do not have the financial backing of major studios, making it more difficult to build a sustainable British film industry that can nurture home-grown talent and make long-term contributions to the UK's economic and cultural life.

Have the 2006 changes to the tax credit system been of benefit to the UK film industry? Have they had a perceptible effect on UK film production? Are the qualifying conditions, including the "Britishness" test, for the tax credit appropriate? Are any types of film or types of commercial arrangement unreasonably excluded?

- 24) Channel 4 believes the current tax credit system, including the Britishness test, works well for producers and has brought significant benefits to the UK film industry. It has attracted substantial inward investment from US producers – for example, some of 2008's biggest box office hits, including *Quantum of Solace* and *The Dark Knight*, were shot in the UK due to the favorable financial environment, and this has created significant employment opportunities for British crew-members and contributed to the UK's economy as a whole.
- 25) The above notwithstanding, Channel 4 would note three areas of concern. Firstly, that the cash-flowing of the tax credit is still problematic, with banks seemingly reluctant to recognize the low risk nature of the loan. Secondly, that since development funding plays such a crucial role in the making of every successful film, Channel 4 would like to see these costs become allowable costs in the calculation of the tax credit going forward. And finally, it is worth noting that the current UK tax credit is becoming increasingly rivalled by other international incentives – particularly in Eastern European countries. This highlights the problem of being too dependent on inward investment to sustain the UK film industry, as inevitably international productions will go wherever the best financial deal is offered. Channel 4 would therefore emphasise the

importance of growing a significant and sustainable indigenous production base that is able to make long-term contributions to the creative economy and give British stories international prominence.

Is the UK Film Council meeting its objectives of giving support to production and export of British films? Could it do more to assist the UK film industry's contribution to the UK economy?

- 26) Film4 enjoys a close relationship with UKFC and has successfully worked in partnership on several development slates and short film schemes, including the Cinema Extreme and the Digital Shorts programmes. Film4 has also invested alongside UKFC on many of the films coming out of the New Cinema Fund, which seeks to invest in cutting-edge, innovative film-makers. These initiatives have already sourced a generation of new talent – investing in *Red Road* director Andrea Arnold, who directed the Oscar-winning short film *Wasp* as part of Film4's short films programme, and Cinema Extreme graduate Duane Hopkins, who recently developed his first feature film *Better Things* with investment from Film4 and the New Cinema Fund. Film4 has also worked with UKFC and other partners to invest in Warp X, the UK's first fully –integrated digital feature virtual studio which has the capacity to develop, fully finance and distribute ten digital feature films over five years.
- 27) In addition to these collaborations, Channel 4 welcomes UKFC's substantial investment in the Digital Screen Network, which provides cinemas across the UK with digital technology. As previously outlined, digital cinema has the potential to provide greater audience choice by making it cheaper for cinemas to offer widespread releases, but this technology is initially very costly. UKFC's investment is therefore extremely valuable, and has put the UK ahead of other countries in terms of digital innovation. Channel 4 believes that UKFC should continue to drive forward innovation in this area.
- 28) These investments in digital innovation and new talent are critical to the sector, and Channel 4 strongly supports a robust, securely funded Film Council that is committed to supporting the UK film industry. Going forward, we would encourage UKFC to continue its commitments in these key areas, as well as ensuring that it is clear and transparent in its engagement with industry.

Is the current business infrastructure in the UK conducive to the acquisition of the managerial and technical skills required by the film and television industries? Is the business environment conducive to the emergence of entrepreneurial talent, which can take advantage of opportunities in the creative industries?

- 29) Channel 4 recognises the importance to the creative industries of a supportive business environment, which encourages and rewards innovation and creativity. Channel 4 particularly values a vibrant and innovative independent sector, given its unique business model of sourcing all its content from third party producers, and is committed to providing fair rights deals to all the producers that it works with – across television, digital media and film. Each of these industries has its own unique production and distribution arrangements, and therefore inevitably rights deals vary accordingly.
- 30) In television, where a small number of broadcasters are responsible for nearly all spending on new content, Terms of Trade introduced under the Communications Act 2003 provided protection to independent producers and the space necessary for the sector to grow into sustainable businesses able to invest themselves in creative development. Many of these are now able to bring investment into the UK from their successful exploitation of rights overseas. Channel 4 enjoys a good and constructive relationship with independent producers, and will continue to develop this relationship in mutually beneficial ways – including developing the Terms of Trade in television to reflect the rapidly changing ways in which markets are developing, and exploring ways in which it can grow the size of the pie in which both broadcasters and content producers can share.
- 31) The nature of film production in this country means that there is already a multiplicity of funders all with their own rights terms, and as Channel 4 invests further in small-scale new media companies through the 4iP initiative, it is innovating with many new business models that recognize the collaborative and more long-term nature of digital content. Channel 4 would therefore highlight the importance of flexible business deals, ensuring that the UK content industries can respond to market developments, maintain ongoing investment and provide a fair deal to suppliers.
- 32) As digital technology lowers barriers to entry for all content-producers, not everyone will understand the complexities of these types of rights arrangements – or even more common practices such as developing business plans or marketing strategies. There is therefore an important role for institutions in providing

new talent with the appropriate skills and business acumen needed to further develop their careers and build sustainable businesses. This is a particularly important role for Channel 4, which does more than any other broadcaster to nurture new talent and take risks on emerging voices. Through its in-house marketing, legal and business affairs expertise, and investment in a range of training initiatives and mentoring programmes that provide emerging talent with technical and strategic skills, Channel 4 therefore works hard to ensure that the next generation is fully equipped to maximise the opportunities of the digital age.

How successful has the regulatory system been in supporting UK content in television? Are there particular types of programming, such as drama, children's or factual programming, for which more support is needed? Could more be done through regulation or incentives, for example, to encourage non-public service broadcasters to commission original UK content? Might financial measures, such as industry levies, be feasible and effective?

- 33) The current regulatory system – which contains a publicly funded BBC, a publicly owned Channel 4 and PSB commitments for the other terrestrial commercial broadcasters - has been responsible for the creation of a television industry that has been the envy of the world.
- 34) However, while the transition to digital has opened up a range of opportunities for consumers and citizens to access content however and whenever they want, these same structural changes have also undermined the foundations of the current broadcasting system. As competition for audiences increase and advertising revenues move away from television to online media, commercial broadcasters are facing increasing financial pressure – there is now a significant gap between the fortunes of the BBC, which in 2009 has a guaranteed income of around £3.6 billion, and the combined UK TV advertising market, which is forecast to be up to £1 billion less than licence fee income this year⁹. This has made it difficult for commercial broadcasters to justify investment in less profitable PSB programming, creating the risk that the BBC becomes the sole provider of PSB content in the UK.
- 35) This financial pressure has already led to a decline in provision of some key PSB genres, such as children's programming. In 2006 ITV stopped commissioning new children's content and replaced the children's slot on the main ITV1 channel with more profitable repeats of *Inspector Morse* and *Midsomer Murders*. Five has limited its provision to younger audiences, and while Channel 4 has announced commitments to increase children's provision and has already commissioned a children's history series, it has had to postpone transmission of this series due to the severe pressures of the current economic climate.
- 36) The rapid increase in new distribution platforms has not significantly increased investment in PSB content – despite nearly 20 years of satellite television, investment in UK-produced original programming (excluding film and sports rights) by digital channels not operated by PSBs is estimated by Ofcom to be only £200 million per annum – less than 8% of total investment in UK origination¹⁰. While Channel 4 would welcome any further encouragement of non-PSBs to invest in public service content, these channels are not freely available to all UK audiences, and most do not achieve the same levels of reach and impact as the core PSB channels.
- 37) Channel 4 would also highlight that examining the possibility for small-scale incentives for some television channels are an insufficient way to address the scale of the problem affecting the current UK PSB system – bold structural change is needed. The Government has recognized that high-quality UK PSB content is highly valued by audiences, and the Digital Britain report is currently exploring ways to secure this content through the establishment of a second PSB institution, which has Channel 4 at its heart but which has sufficient scale to be able to sustain itself and compete effectively in a multi-platform world.
- 38) Channel 4 welcomes the Government's recognition of the importance of UK content and the structural challenges underpinning the sector, as well as the vital role of Channel 4. As the main current provider of public service plurality alongside the BBC, and its 26 year history of delivering public and economic value, Channel 4 must be at the heart of any new PSB organisation.
- 39) The Government are currently exploring the viability of partnerships, joint ventures and mergers as the best means of creating a second organisation with the necessary scale. Channel 4 agrees with both Ofcom and the Government that these explorations should begin with publicly owned organisations: Channel 4

⁹ UK TV NAR forecasts 2009

¹⁰ Ofcoms Second PSB Review, Phs 1

and BBC Worldwide. These organisations are closely aligned in terms of their goals and internal cultures, and Channel 4 believes that a combination of the two would provide the greatest value to audiences, and comes closest to the Government's vision of an organisation with sufficient scale and expertise to make substantial and sustainable investments in the widest range of high-quality PSB content.

How will the structural changes facing the UK television industry, and particularly the public service broadcasting component, affect UK originated television content? To what extent are these effects irreversible? To what extent are they being offset by changes elsewhere in the creative industries sector? What are the implications for television content creation of digital switchover and widespread broadband availability?

- 40) The broadband revolution has transformed the communications sector, creating new ways of creating, distributing and consuming public service content.
- 41) Channel 4 is a forward-looking organization that has embraced the potential of the digital age, and in *Next on 4* announced its ambitions to transform into an integrated public service network, delivering compelling public service content across TV, film, web, mobile and games. This approach has sought to develop cross-platform projects that cover the range of issues traditionally covered by television—such as arts, education, history, health, and sport, but that also maximise the potential of the unique characteristics of digital media: tools that are inherently more participative and collaborative.
- 42) Channel 4's digital strategy includes a new £50m innovation fund for public service digital media, 4iP, which will be investing in socially valuable tools and sites, as well as moving the majority of its Education budget online to ensure young people are targeted in the most effective and relevant ways. Channel 4 was also the first commercial broadcaster in the world to make its full commissioned schedule available on-demand with 4oD, serving a quarter of a billion pieces of long-form content in just over two years. Film4 has also driven digital innovation, investing in the digital studio Warp X, supporting investment in digital cinema, and developing projects such as the forthcoming *All Tomorrow's Parties*, which includes both a feature film and an online archive of the history of the music festival.
- 43) However, despite these considerable opportunities, it is clear that digital media is also presenting structural, and irreversible, challenges to the commercial broadcasting market. Charles Leadbeater, a renowned technology thinker, recently stated that Government's plans to increase broadband take-up "*puts political leaders in a painful bind they are keen to overlook*", as "*accelerating the spread of broadband will not save these industries but make their predicaments more difficult*¹¹". Digital media is fundamentally undermining commercial media's ability to invest in high-quality PSB content, and these investments are not being replaced by other providers - the web is currently dominated by non-UK brands such as Google, Facebook and AOL that make no investment in UK content, and most UK sites do not have the brand recognition needed to compete with these providers and achieve high levels of audience impact. (This highlights the importance of institutions in attracting large audiences – for example, the strength of Channel 4's brand, its distribution expertise and cross-platform approach has enabled it to deliver compelling online content to wider audiences.)
- 44) While the digital age clearly presents significant opportunities, it is therefore vital that any future communications regulation recognizes the profound structural challenges it is posing to traditional commercial media, and creates a robust regulatory system that protects investment in high-quality UK content across the board – in television, film and digital media. Without bold, structural intervention of this kind, the UK risks losing the kinds of innovative content and creative talent that has made it the envy of the world.

ENDS

¹¹ "The Digital Revolution :the Coming Crisis of the Creative Class" Charles Leadbeater, 2009, p2