



House of Commons  
Culture, Media and Sport  
Committee

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**Channel 4 Annual  
Report**

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**Third Report of Session 2008–09**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by The House of Commons  
to be printed 20 January 2009*

## The Culture, Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Culture, Media and Sport and its associated public bodies.

### Current membership

Mr John Whittingdale MP (*Conservative, Maldon and East Chelmsford*)  
*[Chairman]*

Janet Anderson MP (*Labour, Rossendale and Darwen*)

Mr Philip Davies MP (*Conservative, Shipley*)

Mr Nigel Evans MP (*Conservative, Ribble Valley*)

Paul Farrelly MP (*Labour, Newcastle-under-Lyme*)

Mr Mike Hall MP (*Labour, Weaver Vale*)

Alan Keen MP (*Labour, Feltham and Heston*)

Rosemary McKenna MP (*Labour, Cumbernauld, Kilsyth and Kirkintilloch East*)

Adam Price MP (*Plaid Cymru, Carmarthen East and Dinefwr*)

Mr Adrian Sanders MP (*Liberal Democrat, Torbay*)

Helen Southworth MP (*Labour, Warrington South*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at

[http://www.parliament.uk/parliamentary\\_committees/culture\\_\\_media\\_and\\_sport.cfm](http://www.parliament.uk/parliamentary_committees/culture__media_and_sport.cfm)

### Committee staff

The current staff of the Committee are Tracey Garratty (Clerk), Martin Gaunt (Second Clerk), Elizabeth Bradshaw (Inquiry Manager), Anna Watkins/Lisa Wrobel (Senior Committee Assistants), Rowena Macdonald (Committee Assistant) and Laura Humble (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Culture, Media and Sport Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6188; fax 020 7219 2031; the Committee's email address is [cmscom@parliament](mailto:cmscom@parliament).

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## Report

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1. On 21 October 2008, the Culture, Media and Sport Committee held the first of what is intended to become annual oral evidence sessions with Channel 4 on its Annual Report and Financial Statements.

2. Channel 4 is a unique broadcaster. It is a statutory corporation, without shareholders, established and regulated under successive Broadcasting and Communications Acts. It generates all of its revenues in the commercial marketplace but is not for profit, its principal focus being the fulfilment of its statutory remit. It receives indirect state funding and other privileges such as free analogue and digital spectrum, “must carry” status<sup>1</sup> and due prominence on electronic programme guides.

3. Channel 4 is required to lay before Parliament an Annual Report of its financial accounts and performance. However, concerns have been expressed that Channel 4 lacks accountability and external scrutiny. The establishment by the Committee of a Channel 4 Annual Report session is a response to this and is intended to provide enhanced transparency and accountability for the report and accounts, and a forum for the discussion of other issues relevant to this publicly-owned organisation. This is all the more important now that Channel 4 is pressing for either direct or indirect public financial support to cover its projected deficit in future years.

4. During the inaugural Channel 4 Annual Report session, the Committee questioned the broadcaster on a range of matters relating to its 2007 Annual Report and Financial Statements, its strategy, programming and efficiency, and other issues of current interest including:

- Governance;
- Remit and core purposes;
- Channel 4 cost cutting measures;
- The kidnapping of documentary filmmaker, Sean Langan;
- Digital radio;
- Initiatives/output in education and for younger audiences;
- Independent and regional production;
- On demand services;
- Ofcom’s Public Service Broadcasting Review, and possible future funding models for Channel 4.

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<sup>1</sup> Designated channels which must be carried by UK cable operators in their lowest cost package

5. We considered that Channel 4 responded to our questions directly and with sufficient information, and so did not need to follow up the oral evidence session with further written questions. Instead, we intend to invite Channel 4 to appear before the Committee again, later this year, following the publication of its 2008 Annual Report and Financial Statements.

6. Channel 4 did give a commitment during oral evidence to submit written evidence to provide greater clarity on a couple of issues which arose during the session, and this written evidence is attached to our Report after the oral evidence.<sup>1</sup>

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<sup>1</sup> Ev 18

# Formal Minutes

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**Tuesday 20 January 2009**

Members present:

Mr John Whittingdale, in the Chair

Philip Davies  
Nigel Evans  
Alan Keen

Rosemary McKenna  
Mr Adrian Sanders  
Helen Southworth

Draft Report [*Channel 4 Annual Report*], proposed by the Chairman, brought up and read.

*Ordered*, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 6 read and agreed to.

*Resolved*, That the Report be the Third Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 27 January at 10.15 a.m.]

# Witnesses

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**Tuesday 21 October 2008**

*Page*

**Luke Johnson**, Chairman, **Andy Duncan**, Chief Executive, and **Anne Bulford**,  
Group Finance Director, Channel 4

Ev 1

# Written evidence

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Channel 4

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# List of Reports from the Committee during the current Parliament

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## Session 2005–06

First Special Report	Maritime Heritage and Historic Ships: Replies to the Committee's Fourth Report of Session 2004-05	HC 358
First Report	Broadcasting Rights for Cricket	HC 720
Second Report	Analogue Switch-off	HC 650 I, II
Third Report	Preserving and Protecting our Heritage	HC 912 I, II, III
Fourth Report	Women's Football	HC 1357
Second Special Report	Women's Football: Replies to the Committee's Fourth Report of Session 2005–06	HC 1646

## Session 2006–07

First Report	Work of the Committee in 2006	HC 234
Second Report	London 2012 Olympic Games and Paralympic Games: funding and legacy	HC 69 I, II
Third Report	Call TV quiz shows	HC 72
Fourth Report	Call TV quiz shows: Joint response from Ofcom and ICSTIS to the Committee's Third Report of Session 2006-07	HC 428
Fifth Report	New Media and the creative industries	HC 509 I, II
Sixth Report	Caring for our collections	HC 176 I, II
Seventh Report	Self-regulation of the press	HC 375
First Special Report	Self-regulation of the press: Replies to the Committee's Seventh Report of Session 2006–07	HC 1041

## Session 2007–08

First Report	Public service content	HC 36 I, II
First Special Report	Public service content: Response from Ofcom to the Committee's First Report of Session 2007–08	HC 275
Second Report	Ticket touting	HC 202
Third Report	Work of the Committee in 2007	HC 234
Fourth Report	BBC Annual Report and Accounts 2006–07	HC 235
Fifth Report	On-course horserace betting	HC 37
Second Special Report	On course horserace betting: Government Response to the Committee's Fifth Report 2007–08	HC 549
Sixth Report	London 2012 Games: the next lap	HC 104 I, II
Seventh Report	European Commission White Paper on Sport	HC 347
Third Special Report	European Commission White Paper on Sport: Government Response to the Committee's Seventh Report 2007–08	HC 1029
Eighth Report	Tourism	HC 133 I, II
Ninth Report	Draft Cultural Property (Armed Conflicts) Bill	HC 693
Tenth Report	Harmful Content on the Internet and in Video Games	HC 353 I, II
Eleventh Report	Draft Heritage Protection Bill	HC 821

**Session 2008–09**

First Report	Pre-appointment hearing with the Chairman-elect of Ofcom, Dr Colette Bowe	HC 119
[First Joint Report with the Business and Enterprise Committee]		
Second Report	Work of the Committee 2007–08	HC 188

# Oral evidence

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## Taken before the Culture, Media and Sport Committee

on Tuesday 21 October 2008

Members present

Mr John Whittingdale, in the Chair

Janet Anderson  
Philip Davies  
Mr Nigel Evans

Mr Adrian Sanders  
Helen Southworth

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*Witnesses:* **Mr Luke Johnson**, Chairman, **Mr Andy Duncan**, Chief Executive, and **Ms Anne Bulford**, Group Finance Director, Channel 4, gave evidence.

**Q1 Chairman:** Good morning everybody. This morning's session is to look at Channel 4 and, in particular the annual report and accounts, but also to have a more general session on the role of Channel 4 in the future. The Committee has long had an annual session with the BBC. It is our view that Channel 4, as a publicly owned corporation which is also now discussing the possibility of receiving government support in one way or another, it is appropriate that the Committee should also have an annual session with Channel 4. I hope that this will be the first of many in the future. I would like to welcome this morning, the Chairman of Channel 4, Luke Johnson; the Chief Executive, Andy Duncan; and the Group Finance Director Anne Bulford. Perhaps I might start. Could we begin by talking a bit about the governance and accountability of Channel 4. You have contrasted your position with that of the BBC, where you are subject to regulation and licensing by Ofcom. To what extent does Ofcom scrutinise and get involved in, for instance, the approval of your report and accounts?

**Mr Duncan:** The report and accounts is a document that we produce ourselves. That has a process of external auditing, so we do not have that approved, as such, by Ofcom, but Ofcom do regularly review a whole variety of data from Channel 4 in terms of programme performance, statements of programme policy, achievements of programming, measures against quotas, and I would say that almost on a daily or weekly basis there is a flow of information back and forth between ourselves and Ofcom. The annual report and accounts itself is not signed off by Ofcom, as such, although we obviously share it with them, but in a very wide range of measures and respects, Ofcom regulates what we do, most specifically on the programming side.

**Ms Bulford:** There are two separate relationships with regard to the report and accounts. First, there is the relationship via the shareholder executive, where there is a discussion with their representatives with us in terms of the report and accounts.

**Q2 Chairman:** The shareholder [. . .]?

**Ms Bulford:** The shareholder executive will talk to us about the report and accounts and we have a session where they ask questions.

**Q3 Chairman:** What do you mean by the shareholder executive?

**Ms Bulford:** Stephen Lovegrove is the individual who spends time with us at Channel 4. That takes place and there is scrutiny and monitoring there. In addition, we have regular quarterly meetings with people from Ofcom, where we talk to them about our numbers and, again, have opportunities for questions. Once a year, the published report and accounts are part of that, but there is not a formal sign off. The most formal part of the annual statutory process is in relation to schedule 9, which is the part of the Broadcasting Act dealing with the separation of commercial activities as opposed to core Channel 4. For that, there is a formal audit process with separate auditors, Deloitte, and then there is a formal meeting, a tripartite meeting, between ourselves, Deloitte and Ofcom, at which Deloitte discuss their report with Ofcom and there is an opportunity to ask questions again. Deloitte's independent audit report is published in this document towards the back.

**Mr Duncan:** In that sense, we have three points of contact with government departments. Obviously DCMS is our main link, but then with the shareholder executive, which fits now into BERR, and, in addition, with the Treasury. On the more commercial aspects, because the shareholder executive look after all government-owned organisations, that is our link. Particularly in the last year or two where the financial issues have become more to the fore, that side of the contact is growing quite significantly.

**Ms Bulford:** But the primary process is the main board. KPMG are our statutory auditors and they produce their independent report. That is considered by the audit committee, which is a subcommittee of our board made up entirely of non-executives, and then the report and accounts are put before our own board ahead of being submitted and laid before Parliament.

**Q4 Chairman:** The LEK report and Ofcom have both highlighted the weakness in the current governance arrangements. Do you accept that there does need to be a strengthening of the arrangements for governance of Channel 4.

**Mr Johnson:** No. I think we refute that entirely. The fact is that there is very strong stewardship and scrutiny of Channel 4 by the board, the majority of whom are non-executive, by Ofcom, and by the other public stakeholders to whom Andy has referred. I do not agree with that.

**Q5 Chairman:** But you have said in your own *Next on 4* strategy that there may need to be amendments to the governance structure as a consequence of any changes to the organisation's funding model.

**Mr Johnson:** Inevitably, if that is the price we have to pay for direct subsidy of some kind, then we would have to accept it.

**Q6 Chairman:** But you would not intend to do it unless forced to.

**Mr Johnson:** I do not believe that we have weak governance. I think Channel 4 has strong stewardship and custodianship of public assets. If there is a further burden of regulation and administration and bureaucracy, then that will curtail its independence and lead to additional costs and not deliver value to the taxpayer or, indeed, a better output for Channel 4.

**Mr Duncan:** If you take the regulatory side of it, it is extremely clear: you have Ofcom as a separate regulator and an independent board. If you take the financial side that we have just talked about, that is also very clear. The other area we ourselves identified as being beneficial is to try to explain more the public value we think of as Channel 4. If you take the annual report and accounts for last year, as we are here to discuss today, it is still largely a financial document. One of the things that we laid out in *Next on 4* is our intention from this year (that is next spring, when the next annual report and accounts come out) to have a new section which is really a public value section, which will try to document much more clearly the public value that we believe we bring to Britain and the British public, through the programming, through the wider impact we have on the creative economy and so on, and very much measured through the public purposes that we have laid out. I am not sure you would call it governance and accountability, but you would absolutely talk about that as trying to be a clearer way of measuring the public value we deliver and which we think is appropriate going forward.

**Q7 Janet Anderson:** You have talked about public value. In *Next on 4* you set out four core purposes, two of which are to challenge people to see the world differently and to inspire change in people's lives. How is Channel 4 going to challenge people to see the world differently? In what way do you want them to see the world differently? How are you going to inspire change in their lives?

**Mr Duncan:** Taking each of those in turn, in terms of seeing the world differently, I would say a very big way in which we do that is through our news and our current affairs coverage. Every night, we have one hour of full peak-time news. One of the things that strikes our news coverage differently from other people's is the ability, in the space of an hour's news

bulletin rather than half an hour, to go in-depth on big issues. Channel 4 news has a very strong reputation for coverage of business issues, international issues in particular. Helping people to understand what is happening in Britain but also what is going on in the world around them in a broader sense is something that we do day-in and day-out through Channel 4 news. Our current affairs coverage remains very, very strong. For example, at a time when it has all but disappeared from commercial broadcaster screens and even the BBC have cut down to just half-an-hour a week on *Panorama*, we have kept one hour every week on *Dispatches*, which covers a wide range of topics: everyday issues to do with food or rubbish or education or hospitals, through to broader financial or international issues, and, of course, we have other focused strands, like *Unreported World*, which we do 20 times a year, focusing in on countries around the world which are not covered very much. There is a fantastic level of coverage day-in and day-out with news and current affairs, in addition to which we also have dramas and factual programmes that also broaden that out. In terms of inspiring change, that ranges through a wide variety of topics. At one end of the spectrum, we have a wide range of issues to do with the arts and science and religion, issues of intellect or religious issues which Channel 4 pushes and probes and inspires people to think about and reflect on, through to much more everyday issues like food, diet, and parenting. We have programmes like *Jamie's Ministry of Food*, which we have on at the moment, or Gordon Ramsay's *Cookalong*, which is starting this Friday, on the very practical issue of how you get people in Britain cooking again, through to programmes that might inspire exercise, that might inspire people to look at the amount of physical exercise they embark on. I would say that whether it is high-level news and current affairs coverage, or whether it is more specialist/factual: arts, science, religion, history, or whether it is more everyday topics, we tend to find in all the audience research we conduct that people do find Channel 4 programming inspires them and touches upon their everyday lives.

**Q8 Janet Anderson:** Do you think that without Channel 4 people would be as well-informed as they are with Channel 4? Do you think there are other people who could do the same as you if they had access to government funding?

**Mr Duncan:** We have never said and would never say that Channel 4 is the only organisation that can do some of those things, but I think the way in which we do it does make our contribution rather unique. Channel 4 in particular, as we lay down in the *Next on 4* document, has a very good track record of tackling issues in rather an innovative or creative or unusual way. We will often cover a topic with a presenter or a talent who gives a perspective on an issue that has not otherwise been covered. We are often able to be a bit bolder and to take more risks in the way we approach an issue. The *Sex Education Show* which we have on at the moment—a very important programme, given the amount of sexually

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transmitted diseases in Britain—which is trying to educate people on good practices, is the sort of programme you would not expect the BBC to run, for example. It would not fit with their brand.

**Q9 Janet Anderson:** Why is it possible for you to be bolder than, say, the BBC?

**Mr Duncan:** There are two reasons really. First of all, that is very much our remit. Innovation and creativity and risk are part of what we are there to do, and people expect it. In terms of what people expect from Channel 4, there is an expectation of pushing the boundaries. Second, we are commercially funded to achieve public purpose ends; we are not there to maximise profit. The evidence is, increasingly, that if you are there to maximise profit, it forces you down the route of playing it safe, coming up with tried and tested formats. A combination of publicly-owned and public purpose, and in particular having a very different remit from that laid down for the BBC, for example.

**Mr Johnson:** Also, Channel 4, since it was founded 26 years ago, has always championed individual voices. The BBC tends to have a more corporate in-house production way of delivering its remit, whereas we use exclusively independent producers to make our programmes. We have things like our *Seasons*—for example, last autumn we had our *Lost for Words Season* about childhood illiteracy—which I think are brave and innovative and which you do not really see on other channels.

**Q10 Janet Anderson:** Is there anything which you think your audience would like you to do which are not doing at the moment?

**Mr Johnson:** No, but if you have any good ideas we would love to hear them. Obviously our commissioners are always seeking new and interesting ground to cover, particularly that which will catch people's attention and imagination.

**Mr Duncan:** There are two main areas where you would say we are financially constrained. One is drama. We do a lot of very good one-off dramas. They are very expensive, they typically lose money. The audience appreciates drama when we do it and we would like to do more than we are currently able to afford. The other area, which we have put in *Next on 4*, is this idea of doing a pilot for older children. We have a particularly good connection with younger audiences. We have some very good programmes we have commissioned appealing to older teenagers, for example, which at the moment we are not in a position to transmit because of the financial situation. We do not lack ideas and ambition, as Luke said, but in terms of the short term, at least, it is more of a financial constraint.

**Q11 Janet Anderson:** Could I ask you a question about drama. Peter Bazalgette was on the radio this morning and he said it costs £1 million to make an hour of TV drama. Is that about right?

**Mr Johnson:** Yes.

**Mr Duncan:** It can be more, but, yes.

**Mr Johnson:** As opposed to perhaps only 15% of that for documentaries.

**Q12 Chairman:** You have adopted a strategy very much of investing in activities beyond the core channel, so you have moved into a number of digital channels and also Oneword Radio, music, online activities, learning. The vast majority of those have lost money. If you had concentrated on Channel 4 and not diversified, would you not be in a better financial state today?

**Mr Duncan:** No. Quite the opposite, actually. The problem we have is that the core channel itself is in inexorable decline. As multichannel homes grow and as, more recently, people are beginning to watch programmes on the Internet, for example, if we were pursuing only a core channel strategy our financial position would be much worse than it is today. Over the last few years, in particular, we have invested in the digital channel portfolio, in taking E4 free-to-air, in More4 being launched as a new channel, and in Film4 free-to-air. That has been a very important mechanism for us, first, to deliver our programmes to more audiences, but, second, they have a specific remit to earn money for us, which they do. So we have grown, for example, our share of the advertising market over the last four or five years from about 21% to 24%, largely through the portfolio expansion of the new digital channels. In terms of the multichannel side of things, the channels are already making very good profit for us and are already beginning to contribute back to the core channel, which of course is now in loss. I think we are at an earlier part of the curve on the Internet, but, to make the same point about the Internet, it is inevitable that more and more British audiences will want to get their programmes via the Internet. We have seen that with our *4 on Demand* and BBC with the iPlayer. Over a period of time, that also, we believe, can be an effective way to deliver programmes and also a mechanism to make money. The idea that we should ignore this huge change of consumer behaviour and technology change going on in the market around us is madness. Both for public purposes and for commercial reasons it has been the right thing to do.

**Q13 Chairman:** You have also increased the amount of money and the number of hours you devote to acquisition of content. You are paying an extraordinarily large amount of money for certain programmes; *Desperate Housewives*, for instance. Would you not equally have done better to have concentrated on UK production and not sought to outbid other broadcasters to acquire American imports?

**Mr Duncan:** The first point to make is that acquisitions have always been a big part of the Channel 4 schedule. For the first 20 years or so of Channel 4's existence, they were by far and away the most profitable part of our programming. To a large extent, they funded UK commissioned programming. To take last year, hours dropped

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slightly but were still at a lower level than they were on the Channel 4 schedule during Michael Grade or Jeremy Isaac's time—so they are lower than they used to be. Prices have gone up, you are quite right, because of competition. That is why we said in *Next on 4* our intention was to reduce by 20% to 25% over the next four years our acquisition spend, so that we could free up more money to spend on original British content. The reason we cannot pull out altogether is that would be even more damaging commercially. To go back to my earlier comment about needing to remain competitive in the advertising market, if we pulled out of acquisitions altogether, first of all the audience would be very upset, but, second, that would be very damaging for our share of the advertising market and would reduce our ability to invest in UK programming. Acquisitions, as a whole, do remain profitable.

**Q14 Chairman:** Nearly £1 million per episode of *Desperate Housewives* is still a sensible investment.

**Mr Duncan:** The figure is not in the public domain. It is obviously commercially sensitive but, yes, all the deals that we have done on acquisitions are ones that have first and foremost been calculated commercially in terms of being able to pay back.

**Q15 Mr Evans:** How would you best describe the state of Channel 4 at the moment?

**Mr Johnson:** I think it is probably fair to say challenged—not creatively, but economically. We are not alone in that. You only have to look at the share price of ITV, for example, to see that legacy media companies, as some people call them, are under significant pressure. The point Andy was talking about earlier was that to ignore the changes in the market-place and people's behaviour would be sheer madness, both financially and also in terms of our impact and in fulfilling our remit of delivering public service content. I think we are holding our own in terms of advertising share; I think we are doing okay in terms of audience share. Over the last four or five years, since Andy and I have been involved, we have outperformed the competition on many measures, but it is tough out there and next year is going to be an extremely difficult year. That will be so for the whole UK economy. Given the structural changes that are happening in the UK television market-place, we are under dual pressures which are making life more difficult, but we are not being complacent about it. We are obviously making savings, we are aware of the need for self-help, and we intend to remain an important cultural force into the future.

**Q16 Mr Evans:** You used the word “challenged”. Looking at media reports about what is going on in Channel 4, maybe the word “dire” is more accurate: you are making savings of £100 million, you are getting rid of 15% of your staff, your audience is declining as well. Looking at the remuneration of the executive members, your package seems to have doubled. You received a bonus last year of £98,000.

**Mr Johnson:** I had better answer that. You have to remember that all coverage of other media companies is always from our direct or indirect competitors. That is one point to put into context. We are making savings because that is necessary in order to compete against a very difficult marketplace. There are estimates now that suggest that the overall television advertising pot will fall this year by 6% or so. We are adapting to considerably more difficult circumstances. In terms of Andy's salary, I think you will find that the figure you have quoted includes three years' deferred pay, which was a loyalty bonus. That was based on the fact that a month or so after I joined Channel 4, Mark Thompson, left for the BBC. I think it was a very strong desire of the Channel 4 board to make sure that we had stability in terms of leadership for a reasonable period of time following that rapid departure. We organised a form of a loyalty bonus, which has been in the accounts for the last three years but was only payable in 2007. The bonus payable was significantly reduced from the maximum bonus achievable.

**Q17 Mr Evans:** I assume that the executive members will be making their sacrifice this year on bonuses, like quite a lot of other staff are making a sacrifice in a loss of jobs.

**Mr Johnson:** There are various measures in terms of how they achieve bonus. It is too early to say yet which of those measures will be achieved. Some are financial and some are qualitative. It is really for the Remuneration Committee to decide, in conjunction with the executives, what is appropriate in the circumstances.

**Q18 Mr Evans:** You can imagine what the public would feel if they were to see big bonuses being paid to executive members, when, of course, you are state-subsidised.

**Mr Johnson:** We are not directly state-subsidised currently.

**Q19 Mr Evans:** No, but you are.

**Mr Johnson:** Well, okay. I think the truth is that it will be partly up to the Remuneration Committee and partly up to the executives concerned. There are contracts in place, but I'm sure they will demonstrate leadership.

**Q20 Mr Evans:** The reports say that, as part of the cost-cutting measures, some quality programming is going to be shelved for a lot more reality TV, but even with programmes like *Big Brother* the audiences are plummeting now. It is not as exciting as it was. It is not as groundbreaking as it was. Can you give us a guarantee that the news and documentaries that you do, which are excellent, will be protected?

**Mr Duncan:** I think at the moment our ability to guarantee anything is limited, but there is no intention to cut news and current affairs, for example—certainly as we go into next year. I think documentaries will be, at least in part, affected. Thinking back to what you were saying, our overall

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share has held up actually. Portfolio share this year is likely to be the second or third highest ever, so people are watching as much Channel 4 television as they ever have, and our share of the advertising market is as high as it has ever been, but what is really causing financial pressure is the drop in the advertising market itself, which is partly economical, partly structural. We have been flagging this issue for three to four years, the fact that this gap was going to arrive, and it is well and truly here. We have taken £50 million out of our plans in 2008, of which we have tried to protect programming as much as possible. Although programming is 60% plus of our total costs, we have only taken £25 million out of programming so far. Next year we are currently planning to take a further £50 million out, of which, again, a further tranche will be in programming. Clearly we cannot take money out of programming that would then commercially make our situation even worse, because that would be self-defeating. At the moment, at least, news and current affairs are unaffected, at some level documentaries are affected, drama, for example, we will be doing less of some of the one-offs that we have been able to do in the past. This is one of the reasons obviously we have been calling for sometime now for government and for regulators to stop the debate and move to some action, because the historic subsidy of the analogue spectrum is running out of value and we need some new mechanic to replace it. Having said that, in any scenario going forward we will still be, to a large extent, reliant on the market commercially funded. So 85% of our revenues would still be commercially self-funded, and we have to remain hungry and open to being commercially entrepreneurial as well.

**Q21 Mr Evans:** Could I change tack now. One of your documentary filmmakers, Sean Langan, was held ransom for three months. Happily, he was released. Can you confirm that Channel 4 paid £150,000 in ransom to get him released?

**Mr Duncan:** No, I am not in a position to confirm any detail. The broad background to that is that obviously any high level investigative journalism is a dangerous trade and activity—particularly in the current world, I would say. These sorts of issues are ones that many broadcasters around the world have to deal with. Sean Langan was, indeed, kidnapped earlier this year. Our main role was that we were supporting the family and worked with a number of agencies alongside the family to try to help them secure his release. Obviously they were successful, ultimately, in getting him back alive—which is fantastic—but in terms of the specific conversations that we had with both the family and others involved, they are obviously very sensitive, and both in terms of our commitments to him and to his family we have made commitments not to talk about it.

**Q22 Mr Evans:** But you do understand the wider areas, as to why people would be concerned if you did pay ransom money. The BBC make it absolutely clear that they do not pay ransom money and of course they face the same problems that you do. If

you did pay ransom money, that endangers every other journalist and other people who happen to operate in Afghanistan, Iraq and other troubled areas. That is why I think there is great public concern that you did not pay any money whatsoever for the release of Sean.

**Mr Duncan:** For the reasons I have explained, I am not in a position to give any more information. The only other point I would add is that we were in regular contact with the Foreign Office throughout, so they and we worked together in a way and they did everything they could to help secure his release.

**Q23 Mr Evans:** Are you saying the Foreign Office said, “Yes, you can pay this money?”

**Mr Duncan:** I am not in a position to confirm any details about what did or did not happen, but we did work with the family and, as I say, a number of agencies and we also had clear and open lines of communication with the Foreign Office. The main thing everyone was focused on was how we could get Sean back safe and alive—which was obviously the good outcome in the end.

**Q24 Mr Evans:** Even though you are not prepared to say whether you did or did not pay £150,000, would you agree with me that the payment of ransom money in these cases does endanger other journalists in the field?

**Mr Duncan:** To make a more general observation, I think this is a highly, highly complex area. I think that different situations exist in different parts of the world. Certainly a number of companies, not just broadcasters but oil companies and other companies, deal with issues of employee safety, and I would say that one of the things we were certainly advised of at the time is that there are not any blanket rules: you have to deal with this situation on its merits and in particular take the wishes of the family into account and work very closely with the particular individual concerned. As I say, I am not in a position to comment further on the Sean Langan case, but more generally I think my point of view would be that you have to look at the particular circumstances of any situation.

**Q25 Mr Evans:** Generally you would say it is wrong to pay ransom money for—

**Mr Duncan:** You are trying to put words into my mouth. I am saying that I think these things are very complex and it is very difficult to give a blanket rule for any situation.

**Q26 Mr Evans:** But it does endanger other people if you carry on paying ransom money.

**Mr Duncan:** It depends on the situation you are talking about. I could not comment on other specific situations without knowing more about them, but in any situation where an employee’s life is at risk you have to weigh up a number of considerations. I could not judge what is right for other companies in other situations. On this particular occasion, we worked with the family and they ultimately successfully secured his release and we are not in a position to talk about how that happened.

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**Q27 Chairman:** Could I go back to the measures you have taken to create efficiency and save costs. Channel 4 is a publishing commissioning house. You spent £625 million or thereabouts last year on programme content out of a total budget of nearly £900 million. Is that not an extraordinarily large overhead that you have, given that what you are doing is commissioning and broadcasting programmes?

**Mr Duncan:** No, I think quite the opposite. Bearing in mind that, essentially, we have as our main activities paying for content, distributing content, and then promoting content so that the audience is aware of what is on and when it is on, those activities take up the vast majority of our income. We then have some specific new business activities which obviously are there to generate yet more income. Our overhead is remarkably low if you benchmark it against other organisations.

**Ms Bulford:** Our overhead in terms of central services (HR, finance, those sorts of things) is less than 5% of the total cost base. In addition to the programme budget, we have substantial expenditure on distribution and marketing, as well as cost of sales in relation to, for example, the rights and sale of DVDs. We work very hard to maintain downward pressure on costs. The financial strategy is to maximise the amount of money that goes on screen. Over the course of certainly last year and the year before, and built into our financial plans, our efficiency savings on the cost base—which is about £180 million once you have taken out the cost of sales, distribution and marketing (so people working in the ad sales team and all the rest of it)—we are achieving annual efficiencies in excess of 3% in each year. In the programme budget itself, similarly we put downward pressure on the prices with independents and look for opportunities to achieve efficiency through procurement and scheduling a mix of programmes. In the period since 2004, we have achieved efficiencies of between 8% and 11% and we target at least 5% annually going forward.

**Q28 Chairman:** You say you achieved 3%. Channel 4 has not, as far as I am aware, stated that it has an annual 3% target in the same way as, for instance, the BBC does or other public service organisations. If you are achieving it, why do you not just say that that is your intention?

**Ms Bulford:** I think it is because we are essentially a commercial funded organisation and we very much look at cost control and margins and all the rest of it. The language of efficiency and setting targets and meeting them is not language that we historically have used. I think you make a good point that it is a change. When we spoke to LEK and they looked through our books, we absolutely shared this information with them and they looked at it and they were comfortable that our calculations were reasonable and accurate and accepted those, and we continue to share that material going forward with Ofcom and others when they review our detailed financial objections.

**Q29 Chairman:** You have declared something like 150 job losses.

**Ms Bulford:** Yes.

**Q30 Chairman:** In actual fact that is proportionately less than, for instance, ITV have recently announced. Do you believe there is going to be the scope for further efficiencies?

**Mr Duncan:** To be absolutely clear, we are going a lot further than other organisations in terms of total reductions in headcount. Reluctantly—it is something we would prefer not to have to do—but forced to by economic circumstances. If you take into account what Anne said about changes we have made over the last two to three years, including a major change in our whole channel operations function and with the further reduction in headcount that we are now looking at, that is dramatically more than certainly the BBC is aiming to do over a much longer period of time or, indeed, than ITV. I think ITV have talked about up to 1,000 out of about 6,000, but that takes into account businesses they have already disposed of and certain changes that have already happened, as well as some further changes that have now been proposed. This can very easily be benchmarked but I would say that we already have a much lower cost base than other organisations and if you add on top of that the very dramatic cuts that we are now having to make, we are going a lot further and a lot faster than other organisations—which is partly for very bad reasons, I would say, because the income is not coming in.

**Q31 Mr Sanders:** I want to go back, if I may to Sean Langan, and something Andy said. You said that during this ordeal you were in contact with the Foreign Office. If a ransom had been paid, would the Foreign Office have known that? I am saying “if”.

**Mr Duncan:** It is a hypothetical question and I am not sure I can add anything to what I said earlier on.

**Q32 Mr Sanders:** Let me put it another way: were the Foreign Office aware of everything you were doing? In other words, had you told the Foreign Office everything you were doing?

**Mr Duncan:** We were as open as we could be with the Foreign Office. We told them everything that was going on at any moment in time. Of course, the Foreign Office have two ways of getting information. I think they had various sources of information about what was going on on the ground in Afghanistan as well. As much as anything, it was a sharing of information and a sharing of knowledge about the particular circumstances of where he was, and trying to work out where he was, and which people might need to be involved to try to secure his release. Again, I cannot really add anything more to what I said earlier on really.

**Q33 Mr Sanders:** None of the fundamentals that triggered the release are unknown by the Foreign Office?

**Mr Duncan:** We shared information with them as we went along. In addition, we know that they have various intelligence gathering sources themselves, so

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at times they came to us and were giving us information that we were unaware of. I do not know exactly what information they do and do not have, but my assumption is that they probably knew more about some of the things going on on the ground than we did.

**Q34 Mr Evans:** You understand why we are so concerned about this matter?

**Mr Duncan:** Of course.

**Q35 Mr Evans:** The headline, if the ransom is paid, “Channel 4 ends up funding terrorists”. That money would have gone into buying more guns and promoting terrorism in that region and, indeed, elsewhere. That is why we are concerned about it.

**Mr Duncan:** Of course the question is a completely fair question and the concern is an understandable concern. As I say, I am hesitant to add more than I have said. The only other point I would like to stress again is that it was very much the family that was aiming to secure his release. Our understanding—but obviously this is based on what we were told and partly what the Foreign Office communicated—is that he was kidnapped by a criminal gang and it was in no way political. He was Irish actually, which was an additional complication in the situation. Had he come from Britain, that would have been problematic vis-à-vis our relationship with Afghanistan at the moment. It was a complex situation but of course I can understand the question and the concern.

**Q36 Mr Sanders:** Turning to radio, you are now ending your second foray into digital radio. What would be the total losses incurred?

**Mr Duncan:** As yet, there is still some unfinished business in that sense, because we announced two weeks ago that we are no longer intending to launch the radio stations. We are still in the middle of some commercially sensitive negotiations with our multiplex partners, but the total investment we think is less than 1% of turnover, so quite a modest sum of money, and considerably less, for example, than we have invested in other new business ventures like the launch of new channels or the acquisition of Box TV last year. It is a relatively modest amount, but the final sums are not yet calculated because we are still, as I said, in the middle of negotiations—but it will be less than 1% of turnover this year, for example.

**Q37 Mr Sanders:** That is, figuratively speaking, what?

**Mr Duncan:** Our turnover will be £900 million plus this year, but, as I said, we are not in a position to put a final figure on it because the negotiations are still taking place.

**Q38 Mr Sanders:** What impact do you think that will have on the future of the multiplex and DAB?

**Mr Duncan:** There are lots of points of view about this. Our perspective is that clearly pulling out was frustrating. It was down to, in our case, short-term revenue and having to make tough choices about priorities. Back to the earlier point, to avoid further

cuts to programmes, in part we had to slash media and new business spend. My own personal view is that DAB could still have a successful future. One of the other problems is that it was not just us, it was the other radio companies on the multiplex who were also not able to launch new stations. I suspect it will go quiet for a year or two. The question is if and when companies come out the other side of the current economic cycle, will they choose to invest in DAB and could it still have a strong future? On the immediate decisions about what is going to happen to the multiplex, that is still subject to negotiations we are currently having with partners. Also, Ofcom and government clearly are talking to both Global and BBC and the other radio companies about possible future plans, but my understanding is that there are not companies out there at the moment that are in a position to invest in new radio stations, given the shortfall in revenue they are experiencing as well.

**Q39 Mr Sanders:** Going into radio, you are shifting direction against where the advertising is going. Have you not considered perhaps shifting your activities to where the advertising is going, which is into the Internet and new technology rather than more established technologies?

**Mr Johnson:** Obviously that was the first question, wondering whether we should be investing in digital activities, and the answer is that of course we should, we must. There is not a serious media company out there of any kind that is not diversifying, and, frankly, the vast majority of them are losing money on the investment to date in terms of their online activities, but this is an investment for the future, in the belief that, over time, advertising revenues and such like will grow on online activities to help supplement traditional media sources of advertising.

**Q40 Mr Sanders:** So that is an area that you are going to be expanding.

**Mr Duncan:** We have Video on Demand. We obviously have our online services. They are growing but from fairly modest bases, clearly, because it is emerging technology and the economic models to make them pay are elusive for virtually every form of media, be it newspapers, magazines, radio, television and so forth. The whole media industry is going through this enormous structural change, in addition to which, obviously, we are facing probably the worst economic conditions for decades, so it is certainly a challenging time.

**Q41 Mr Sanders:** We have been hearing across a number of different inquiries and from a number of different people for quite some time now how everybody thinks that the investment that has been made will in the long term pay off, and it is all on the basis of predictions that at the moment just do not look as though they are going to be there. Has the bubble burst for media expansion? I do not just mean for Channel 4, but I mean right across the board.

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**Mr Johnson:** The media industry, as a whole, has had an extraordinary period of growth since the Second World War: amazing returns, extraordinary margins, incredible cash flow, minimal capital expenditure. There are very few industries like it. Pharmaceuticals would be one. I think there is a huge reckoning that has been going on really for the last five years. It has intensified dramatically because of cyclical economic pressures, in addition to the structural changes, and I think the traditional media industry in the coming years is going to find life dramatically tougher, except for one organisation, the BBC.

**Q42 Chairman:** You said every media company is moving into the digital area, which is perfectly true, but the area they are not moving into is DAB. No commercial company has managed to make any money out of DAB. Why did you think you could?

**Mr Duncan:** I think the key to the original thinking was that this is a significant piece of spectrum, where it was not being auctioned. It was actually, in that sense, a beauty parade. The business model that was part of the original plan was that we would be the lead player in the consortium that owned the multiplex, so there would be an immediate rental profit coming in as the landlord, in addition there was data spectrum on which we could make money, and that would help, in part, subsidise the investment cost of launching radio stations which in turn would also be able to make money. That was the original set of assumptions. For Channel 4, first and foremost, it was an area we could make money and it was a commercial play. In addition, we thought there was significant public value and creative benefit from us expanding on to that platform as well. There was a revised plan agreed this summer, which recognised that, at least for the foreseeable future, the data part of the spectrum would not be very valuable, and a more staggered set of plans, but even as recently as July we still had a full multiplex, full of radio stations ready to launch. Clearly, with what has happened with not just the severity of the downturn but the speed of the downturn over the last few months, not only did we face our own issues with investment costs for launching new radio stations but the other radio companies did as well. A combination of everyone else being in a position not to invest as well meant that the original assumption of making money as a landlord as well as from the radio stations no longer made sense. I think that opportunity will come back again. But clearly, for us, the moment has now gone.

**Q43 Chairman:** Are you suggesting that you have not entirely abandoned hopes to launch Channel 4 radio?

**Mr Duncan:** We have announced quite clearly that we have withdrawn from any intention to launch radio stations. As I say, we are in the process of negotiating what happens now with the multiplex. I think it is highly unlikely that anyone else will be launching radio stations in the next year or two.

That may well change in two to three years' time and that is probably what the Government will now need to look at.

**Q44 Chairman:** But if it changes, you will not be a part of it.

**Mr Duncan:** That is not currently our intention.

**Q45 Helen Southworth:** Channel 4 has had a real focus on young people and younger audiences. It has been around for 26 years, so some of those audiences are a little older now—but we are still interested. You are in an environment in which the BBC is increasingly becoming the main commissioner of children's programmes, but there is a substantial gap in the provision of services for teenagers and young adults. Can you update us as to what you are going to be doing around that and the public service issue that it relates to.

**Mr Johnson:** One of the things we have made very clear in the *Next on 4* document is that while Channel 4 wants to be very broad and appeal to a very wide range of audiences, we want to make more of this very strong connection we have with younger audiences which is in contrast to the BBC and many commercial broadcasters. Very specifically, a lot of our programming in the schedule disproportionately appeals to younger audiences anyway. Things like news and current affairs may be less watched by younger audiences, but to the extent that they watch them at all we are very strong. In addition to that, we have certain programmes, like *Hollyoaks*, for example, and some of the T4 activity at the weekend which is targeted at and appeals very strongly to those groups. One of the more exciting things we have done recently is the *Sex Education Show*. Also, some of the educational activities we have now released online are, again, very much targeted at teenagers, and we have this very exciting older children's pilot which we announced in *Next on 4*. Unfortunately, we cannot play out the programme next year because of financial constraints, but we hope to be in a position to restore that in the years to come, assuming there is a funding settlement coming through.

**Q46 Helen Southworth:** Does that mean that you are re-drawing your proposals?

**Mr Duncan:** We are not withdrawing them. We think we can play a very valuable role indeed with older children. Younger children are relatively well covered by the BBC and by Five and, for example, by other commercial broadcasters where there is an incentive. The gap we see is probably aged 9–15. It is not well covered by the BBC, as it happens, and not very well covered by commercial broadcasters. We think our brand and our credibility for that audience group is very strong and we would like to do more specific programming for that audience. For example, we have a very good history series which has been commissioned, and a very good series about moving on from education to work that has been commissioned. Our problem is affordability. In the short term, at least, we are not in a position to play those programmes out. It is one of the things

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that is dependent upon there being a replacement of the public subsidy and some government action around the funding settlement that we are looking for.

**Q47 Helen Southworth:** Is your pilot fund of £10 million, which was to be dedicated to that programming, to the commissioning, still in existence or not?

**Mr Duncan:** We have commissioned the programmes. The programmes are currently being made. Because of the cuts we have had to make for next year, we do not think we are in a position to play those programmes out and we think we might have to hold off playing those programmes out until the following year. In that sense, the pilot has been delayed because of our current financial issues. The strategic ambition to do more with that group remains as strong as ever. In the case we have made to government and Ofcom, which I think has been endorsed in the latest Ofcom report, I think they also believe that we could play a very strong role with that audience going forward. Our education activities meanwhile, the online educational activities, are continuing next year.

**Q48 Helen Southworth:** The BBC has been working to target a similar audience group with BBC Three, which we have noted is over £100 million a year as a cost. There are two things: one is the work you are currently doing with the 9–15 target group, and the other is your concept of public service value for money in the scenario you are painting, which is programmes made for that target group that you cannot deliver, that you cannot put out, against £100 million on BBC Three.

**Mr Johnson:** To separate the issues, for this we have a very strong connection with younger audiences, as you have highlighted. We already do a lot and we would like to do more. In particular, the idea of a pilot was that we would demonstrate with some real projects rather than just theoretically the sorts of interesting, innovative programming we could produce for that age group. We will have the programmes ready to go, in the stocks. We are waiting on affordability to play them out. BBC Three, and the BBC generally, struggle to connect with those younger audiences as strongly as we do. I think it is one of the points of differentiation and they do spend a lot of money on BBC Three. I think some of the programming that has come through has been good, although a lot of their share and leverage comes from the repeats of *EastEnders* that they run on BBC Three, and a lot of it has not cut through that much. It is frustrating that we have lots of ideas and ambition and do not have enough money to spend on programmes to get to that audience, yes. But we are where we are. It is one of the top priorities, in the event of getting a funding solution through, that we would be able to do more with that age group.

**Q49 Helen Southworth:** One of the issues that was particularly interesting was the way that kids were involved in producing and developing the concept of

*Skins*. Is that something that you feel is a particular strength? It is extremely unusual for young people to get access to concept development, to delivery, to creativity at that kind of level. It appeared to resonate very strongly in terms of the audience.

**Mr Duncan:** Yes, it did. The key reason why Channel 4 disproportionately appeals to younger audiences, and that is also true of E4 and other services that we provide, is that we disproportionately work with young talent and in training initiatives and giving directors and actors a break early on in their career, so I think there is an authenticity to the programming we produce for those audiences because very often young people, as you have said, have been involved in making those programmes. Second, it comes back to tone of voice. As Luke said earlier on, Channel 4 has a very different tone of voice from the BBC. One of the reasons I think the BBC struggles—knowing that from my time there as well—is that they tend to have a rather more middle-of-the-road approach and a slightly “adult talking down to child” relationship in much of their programming which means they have never quite cracked really connecting with the younger generation. One of the key roles that we think Channel 4 can play for the future is this ability to talk in very straightforward language, deal with issues in a very adult way. Whether it is about sex or drugs or what is going on in the world around and people in more every day issues, we talk in a very matter-of-fact tone of voice to the audience, which the younger audience in particular appreciate, and that is why I think we have this strong connection.

**Q50 Helen Southworth:** In terms of public value, do you have an opinion on how important that connection is? When you look at a society where kids are getting stabbed outside youth centres and young people are facing challenges at all sorts of levels in trying to make an understanding of the world and trying to have an input into creating boundaries and feeling comfortable in themselves, how crucial in terms of public value is delivering that communication?

**Mr Duncan:** Extremely important, I would say. It is one of the areas for the public value framework that I mentioned earlier on that we are going to include in next year’s annual report. It is one of the areas where we are trying to put some measures in place this year. I would say that our ability to connect with a whole range of audiences on important issues, but in particular focusing on younger audiences—whether that is child literacy, whether it is gun crime—and we had a whole season on street crime and gun crime earlier this year—whether it is issues like sex education, whether it is diet, or whether it is physical fitness, our ability to take important issues and connect with a whole new generation coming through is extremely important in terms of the public value it can bring.

**Q51 Helen Southworth:** Why are you cutting your £10 million project?

**Mr Duncan:** Because across this year and next year we are losing over £100 million of revenue, over 10% of our revenue base. One of the frustrations we feel is that we have been flagging this issue for three or four years now. Channel 4 has essentially worked, historically, because of the very valuable £150 million a year, free spectrum subsidy. That has now more or less disappeared in terms of its value and a new funding underpinning is needed. We can be 85% commercially self-reliant, but we need that cushioning to allow us to make the sorts of decisions that are commercially economic. The children's pilot will not pay back; it will lose money. That is why ITV have pulled out of children's programming. That is why there is no other commercial broadcaster prepared to do those sorts of programmes. We want to do it, we can be very good at doing it, but it comes at a cost commercially and that is where we need a new funding model urgently that helps underpin some of those trade-off decisions that we take in the schedule every day—news, current affairs, programmes for children—that will not pay back but have huge public value, as you say.

**Q52 Helen Southworth:** What needs to happen and how quickly in terms of this youth audience?

**Mr Duncan:** Very specifically we believe decisions need to be made early next year. Andy Burnham has very encouragingly indicated to the Royal Television Society a few weeks ago the Government would make decisions early next year and we welcome Stephen Carter's appointment. I think that is a helpful new appointment to try to help drive joined-up thinking across BERR and DCMS and across government more widely. I think our position is very straightforward: if decisions can be made early next year and the Channel 4 board can be given certainty early enough, we could possibly even resurrect some of that spend even as early as the second half of next year. It is a straightforward point: the sooner we get some certainty, the sooner we will be in a position to push on with some of these things. At the moment we have had to cut because the ad revenue downturn, as Luke mentioned, is so severe.

**Mr Johnson:** In television you spend long and you earn short. Programmes, especially things like drama, can take years to make and you are making financial commitments long-term in the future. We are not even certain at this point what our advertising revenues will be in December, let alone January and February and so forth. The TV ad market is an extremely volatile market and is very vulnerable because advertising is a lot easier for corporates who advertise with us to cut than many other areas of expenditure. We are peculiarly vulnerable to the ad downturn, particularly given the structural changes in the market-place, where spending is shifting towards online advertising. To go back to your earlier point, I think Channel 4 has delivered outstanding value to the taxpayer and the country as whole, given that it has taken no direct cash subsidy, almost since it was founded, for 26 years. I think probably we could do more in some of

the areas you are talking about, in terms of trying to influence behaviour and trying to send constructive messages and trying to engage with young people, and the effective cost of that and the impact that television can have when it works is extraordinary. It is vital in these sorts of areas, especially if you are addressing a younger audience, that you are an alternative voice: you are not the BBC. Because, unfortunately, the BBC is the BBC, and I think there are a great many of the sorts of people you may be talking about who are not easily reached who do not watch the BBC, and never will—and it does not matter whether they call it BBC Three, they will not. Therefore Channel 4 is crucial as a component of the overall public service ecology. The effective bridge we require to continue to deliver our remit, and even to improve it, is very small in the context.

**Q53 Helen Southworth:** In terms of reach, BBC Three is only reaching one in five of the target audience. What is your reach?

**Mr Johnson:** It depends how you measure it. Our average weekly reach is 58% for Channel 4 itself.

**Q54 Helen Southworth:** The younger audience.

**Mr Duncan:** We would get to over 90% of that younger audience regularly throughout the year. In addition, E4, for example—which is for us a commercial channel but carries a lot of the public value programming as well that Channel 4 has commissioned—gets to more than double BBC Three in terms of reach. In terms of value for money, we are much more effective at getting to younger audiences than BBC Three, if you look at it that way.

**Mr Johnson:** Also, we are very substantially self-funding. Even in some form of settlement, we are not suggesting that any more than 15% of our overall spend be subsidy, so we are an incredibly efficient delivery mechanism.<sup>1</sup>

**Q55 Helen Southworth:** Loss of the £10 million is going to have a significant impact on a large group of people.

**Mr Duncan:** I would view it slightly differently. I would say that there are two things that have disappointed me regarding this group next year: one is the loss of the older children's pilot but the other is the pressure that the programme budget is under generally. Across this year and next year, it means that we are effectively going to take out over 10% of the budget and that will have a knock-on impact in terms of the more general programmes that are scheduled that appeal to that age group. Back to the urgency point, if we can get decisions now made urgently, it both allows the children's pilot to continue but also allows us to restore some of the programming spend cuts we had to make on the core channel schedule—which will affect areas like drama, comedy, some of the entertainment, some of the documentaries—that do absolutely appeal to this generation.

<sup>1</sup> Ev 18

**Q56 Philip Davies:** You have said your target of younger audiences is key to Channel 4. How have you done year on year in terms of younger audiences? Are there fewer people who are 16–34 watching Channel 4?

**Mr Duncan:** If you look at the core Channel 4, the absolute share is down, as indeed it is for all the broadcasters. Because of the growth in multichannel, all terrestrial channels are in decline. If you take it over a five-year period, we have held up substantially better than any of the other terrestrial channels and continue to have disproportionately much higher audience against younger audiences than the other terrestrial channels. If you take portfolio, we have held up very well. So our overall share amongst the younger audiences in portfolio terms has held up well, plus of course we are also continuing to reach that sort of age group more and more with things like on-demand video and some of the online activities. Coming back to the point we have been discussing, clearly one of our worries is that if we have to take money out of programming and content, that could diminish overtime, but certainly over the last few years we have held up very strongly against those audiences.

**Q57 Philip Davies:** One of your programmes which is designed to appeal to younger audiences is *KNTV Sex*, which is supposedly shown to tackle issues such as contraception, sexually transmitted diseases and masturbation, and is going out in the morning. It is targeted at 11–14-year-olds. It is billed as having shows about “amazing sex facts, a look at the inner workings of the reproductive system” and Operation Penis is one of the programme’s topics. Would you agree that the time when it is being shown is at a time when very young children could be watching Channel 4?

**Mr Duncan:** First of all, the programme itself is a very good programme. It is part of our education output. We are required to play that education programme out in the morning, in the education slot, and it something that we have found has a lot of interest for schools and teachers. It is the sort of thing that many teachers are very pleased to show to their pupils, in terms of helping that very important age group understand important issues about sex. As I mentioned earlier on, I think we have big problems in Britain around this. We have higher levels of sexually transmitted diseases than we have ever had in terms of any comparison with other countries in Europe, and I think there is a major problem with that age group around understanding issues to deal with sexual contraception and sexually transmitted diseases and so on. In terms of when we play the programme—and, as I say, it gets played as part of our education output in the morning—obviously we stick very carefully to the guidelines that Ofcom themselves regulate about what we can and cannot show at that time. As with any television at any time of the day, with young children you are expecting parents to be supervising. Whether it is a day-time chat show or an educational programme on Channel 4 to do with sex or any other topic, or whether it is a programme on the BBC’s educational

activity, particularly with very young children you would expect parents to be taking their own view as to whether anything on television at any time is suitable for their young children to watch. But for the age group involved, it is highly appropriate, very good programming, and I think playing a very important role.

**Q58 Philip Davies:** Some people might argue that the more sex education we have had in this country the more teenage pregnancies we have had, but that is a different issue perhaps to discuss. It seems to me that some of these programmes are such that might be seen after the watershed, let alone first thing in the morning. Do you plan to put out warnings to parents at the start to say that these programmes are unsuitable for young children and that they should not allow young children to watch them?

**Mr Duncan:** There are two points to this. There are extremely clear guidelines, laid down by Ofcom, that we always adhere to in terms of what is appropriate content for the time of day. In addition, we always contextualise programming, so there will always be either labelling or an announcer will contextualise the nature of the content that might be coming up. I would repeat the point I just made: I think this is important programming, tackling an important issue in our society. In terms of the age group for whom it is targeted, I think it is playing a very important role. I have to say, I have not heard any information from anybody about the programme being seen by unsuitable audiences, so it is not a problem I am aware of in terms of complaints or contact that we have had from any members of the public. We have had a huge amount of contact, partly about the programme but, in particular, about the *Sex Education Show* that I mentioned which has been shown recently between eight and nine o’clock, a huge amount of appreciative comment, from people who think, “Thank goodness. At last there is a good quality, down to earth, matter of fact programme dealing with important issues that up to now there has not been on television”. So we have had a lot of appreciative comment but I do not know of complaints about it.

**Q59 Philip Davies:** I have two children, aged five and three. I certainly would not want them to be watching this. It is on at a time when they possibly could be watching. I would come back to the same point: do you make it clear that this programme is not suitable for young children? Your target audience is 14–19. Do you make it clear at the start of the programme that this is not suitable for children under that age?

**Mr Duncan:** As far as I am aware, yes, we do, but on the particular example you have raised I will check that.<sup>2</sup> Our normal policy would be that. For example, even in the Video on Demand content we have an age restrictor PIN guidance system around programming for the same reason. But will double check and confirm that.

<sup>2</sup> Ev 18

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**Q60 Janet Anderson:** Could we turn to regional and local production. You have stated your intent to encourage television and film production throughout the nations and regions, as opposed to merely in London. Does that make economic sense for Channel 4?

**Mr Duncan:** We like the fact that we source a lot of programming outside London and we like the fact that, in particular, we continue to get a lot of our programming from the smaller independents. I would say that, commercially, the evidence suggests that the more you go to the big five or six who tend to be London based, that tends to be where commercial performance would drive you. For example, ITV recently had their nations and regions quota reduced and are looking, if anything, to place more with London-based indies, as far as I can see. We have absolutely laid it down as an ambition in our *Next on 4* document that one of the things we would like to do over the years ahead is potentially to source more programming more widely outside London. In particular, we have ten creative cities we intend to focus in on, some of which are in England and some of which are in Belfast, Glasgow, Cardiff. There tends to come a cost with that, because you are often dealing with small indies and so there can be more development costs. There is less of a track record of success, so sometimes the programming you are getting will not be as commercially successful. There is a lack of infrastructure more generally in some of these cities outside of London, although they are beginning to improve a little bit in some areas. We would like to do it. It tends to cost more rather than less.

**Ms Bulford:** The costs of production are not necessarily more expensive, it is really a question of there being sub-scale operations in many different parts outside of London. It is part of a more general problem, in that we are unusual, exceptional in the number of independent companies we deal with. In a given year we deal with more than 300, as opposed to a smaller number, commercially established, with tried and tested ideas. Very many of those companies are outside of London and we actively look for new suppliers and encourage new talent and seek to put work outside of the M25 wherever we can, in particular in the nations and the larger English regions. It takes a lot of time and effort and costs a lot of money. The short answer to your question is: No, it does not make economic sense, but it is core to our remit and everything that we want to do. We had a piece of work done last year which looked at the multiplier effect of that and the way in which we commission and support something like 22,000 jobs around the UK. We think it is an essential part of the work we do.

**Q61 Janet Anderson:** You have set up this Nations Pilot Fund of £1 million a year from 2009.

**Ms Bulford:** Yes.

**Q62 Janet Anderson:** I think you have said that is to encourage production in the smaller nations, so is that £1 million just to be spent in the smaller nations and not the English regions?

**Mr Duncan:** Correct. One of the problems is getting returns of series. In particular, in terms of entertainment or drama, very often, to make a scale change in how much output comes from a different area you need returning series and not just one-offs. The pilot fund is going to be particularly targeted at new drama and entertainment series that could become a successful returning series in Scotland, Wales and Ireland but not England.

**Q63 Janet Anderson:** Do you have any plans to do more to serve very local communities, to make your services more local than they are now?

**Mr Duncan:** No, we do not. One of the unique things about Channel 4 is that we have a fantastic range of individual voices. Arguably we have a wider range of contributors and new talent and different voices from all the different parts of the UK, but we then bring that to the whole of the UK in everything we do. So we do not have regionally targeted programming, although I think we reflect very well different cultures and backgrounds from the point of view of across the UK. I think that remains a point of difference for us, as something we do very strongly, whereas obviously the BBC and ITV have much more of a track record of doing more local and regionally based programming.

**Q64 Janet Anderson:** Given the economic situation that you are in at the moment, how do you feel, or how would you feel, about privatisation? Would you like some of the BBC licence fee?

**Mr Johnson:** Sorry, how do we feel about privatisation and then something about the BBC licence fee?

**Q65 Janet Anderson:** Privatisation of Channel 4 and would you like some of the BBC licence fee?

**Mr Johnson:** I think the Board's view at Channel 4 is that privatisation is obviously an option and it is up to Parliament to decide if that is the right thing to do. I think there is a grave danger that the terms of any privatisation would lead to tearing the heart out of Channel 4 because unquestionably any commercial purchaser would want to make an economic return on its investment and that would lead to a vast diminution in what are essentially loss-making public service strands, such as *Dispatches*, *Channel 4 News*, documentaries, current affairs, the arts and so forth, and you would likely get a schedule of acquisitions and imports and quiz shows and reality TV which I suspect people in this building would not watch very much. As far as the licence fee goes, why do you not talk about that, Andy?

**Mr Duncan:** Just to add one thing on the privatisation point. A very important debate over the last years has obviously got us to where we have got to, but it seems to me a very, very clear conclusion of all the work is that we want plurality in the system going forward, we do not just want the BBC. The thing that is incredibly clear is that if you are driven by the need to make a profit, as indeed ITV and other commercial broadcasters are, the direction of travel is to do less and less public service programming over time for the reasons that have

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been said. We think the fact that we remain the one guaranteed part of the system alongside the BBC that is there to deliver public purposes is incredibly important, so it is very hard to see how you would deliver anything like what we have laid down in *Next on 4*. If we are going to do that we need a funding solution and I think we have made that very clear. Historically we have had 15% subsidy with the free spectrum and 85% commercially self-funded to deliver public purposes. Going forward we think it is roughly the same ratio, 15% some form of public underpinning, 85% commercially self-funded, but, again, very important with the only purpose of the organisation being to deliver public purposes. The licence fee is there as one of a number of options laid down. We are open to any of the options that could actually give us the funding settlement. Our focus is on getting a decision, and getting a decision early. At the moment Ofcom, Government and others are debating the pros and cons of the different options and really it is for them to make that decision and we are hoping they will make it early in the New Year. From our point of view, we have laid down some criteria about any funding solution. It would need to be proportionate. We only need 15%, we do not want to be fully funded like the BBC. It needs to be supporting the purpose of the organisation but it should still allow us to be independent editorially, which is crucial, and it also needs to allow us to be commercially entrepreneurial still. As was touched on earlier, there may be some governance and accountability issues, but any funding settlement has got to be put in place to help us deliver the public purposes that you wanted us to do in the first place. It is one of a number of things on the list of options.

**Q66 Helen Southworth:** Could I take you back to looking at the regions and ask you what you are proposing as your involvement with Media City in Salford and the opportunities that is going to deliver for support for creating new media and small businesses and small companies developing?

**Mr Duncan:** As I mentioned earlier, we have 10 creative cities that we have particularly focused, identified and worked with, and that would include Salford/Manchester. I would say that we do not have a particular agenda about doing a big play in Media City as the BBC and others do because we have no production base, we work with independent companies throughout the UK.

**Q67 Helen Southworth:** You have a huge experience base. Media City is going to need input to make sure that the creativity can actually develop there and they will become world players there.

**Mr Duncan:** There is no doubt some of what we will be doing will help and contribute to and bring some benefit back the other way from the wider developments taking place there, but I would not particularly pull that out as compared to Glasgow, Leeds, Bristol, Cardiff or Belfast; they are all important for us. Seeing the independent sector grow and thrive in all those cities will be very welcome in terms of different voices from across the UK as a whole. It is there and something we are

aware of and we are working as closely as we can with them all. Our approach is we are not saying it is all about one big, new area, it is about spreading it as widely and as beneficially throughout the UK as we can.

**Q68 Chairman:** Whilst we are on the subject of regional broadcasting and the need to sustain plurality of regional news programming particularly, ITV appeared to suggest that Channel 4 might play some role in this and you appeared to reject this proposition pretty firmly. Do you see any role which Channel 4 could play in regional programming?

**Mr Duncan:** As I mentioned earlier on, we bring a lot of regional stories to wider Britain and that is something we have done historically very well. We have got no track record whatsoever of delivering more regionally targeted programming, whether it is the news or anything else for that matter. The problem of simply suggesting we can replace the role ITV play is partly a reach problem. ITV regional news typically gets three or four million people and there is a long history of 50 years-plus of those ITV companies having real local roots in the way they appeal to local areas. *Channel 4 News*, for example, does incredibly well but does not achieve anywhere near the same reach. The second thing is you are in real danger of having a trade-off, that if you introduced a regional part to our news, for example, you would probably shorten that one hour of national and international news which has a big, important and distinctive contribution to make. There might be a small role we can play in terms of online, but the idea that lock, stock and barrel we move ITV's regional news from them to us does not really make sense from a public point of view and would not get the same sort of audiences, nor from a brand point of view I would say.

**Q69 Chairman:** That is a pretty clear no.

**Mr Duncan:** Yes, it is a no.

**Q70 Chairman:** I know you have complained in the past that unlike ITV and BBC, for instance, you have no in-house production capacity and, therefore, the question of rights of product you commission is quite important. You have suggested that there needs to be a change to the existing terms of the trade agreement. PACT are arguing that actually it should be changed in favour of the independent producers so that they have complete rights, all secondary rights of the commissioned product, and presumably you want to go in the other direction. Can you say what you would like to see in terms of your rights?

**Mr Duncan:** I think we laid down our position very clearly in *Next on 4*. We like the fact that we are a publisher/broadcaster. I think one of the points of difference from the range of companies we work with is all the different voices, ideas and so on that we can bring to the public. The *quid pro quo* of remaining a publisher/broadcaster and not having an independent production in-house base, if you like, is that we need to have an appropriate rights

settlement that allows us to properly put that programming out across different platforms. We are not arguing for a turning back of the clock. We are not arguing for terms of trade to go back to where they used to be. We do believe that we and the independents need to work together to ensure the sort of agreement we have got at the moment can continue. For example, we think it is vital that a Channel 4 commissioned programme can also appear on a 4 branded digital channel and can also appear on the 4 video on-demand service. It would be very confusing for the audience if it suddenly was coming from a different brand, the very effective marketing and cross-promotional programmes that allows the audience to find out when they are on and how they can watch it would be confused, and, of course, earning commercial income back to pay for the programme in the first place. We are arguing for a modernisation and a further moving on of the sort of settlement we have got at the moment. Anne can probably say a bit more on that.

**Ms Bulford:** It is partly about earning enough through the exportation through the digital channels and online, and we talked earlier about the huge difficulty everybody is having in identifying sustainable business models for that. It is also about ensuring that we can get reach to audiences so that people can watch these programmes where they want to, when they want to and we get full public value from them. Being a publisher/broadcaster brings many advantages. The range of voices is one of the reasons that we are able to manage our overhead down very low. It gives a lot of flexibility to Channel 4 in its commissioning. If we are not going to have an in-house production base then we have to have secure rights that enable us to do the job we are doing and not find ourselves in the position of when there is a hit that we are unable to secure what we have. We have got a workable interim solution with PACT and we continue to talk to them about how as the world develops we can ensure that we get what we need. A rolling back such that all there is is a single licence for core Channel 4 absolutely would not work and I do not think PACT would be suggesting going that far in any event.

**Q71 Chairman:** They may start off.

**Ms Bulford:** They may, yes. We will see.

**Q72 Chairman:** Are you optimistic that you can achieve an agreement with them?

**Ms Bulford:** I think our relationship with PACT is good. I think we have an open and constructive dialogue. Clearly they want to do the best for their members. These are small businesses and in many cases they want to do well. I am hopeful we can secure the rights that we need. These things are always difficult. I think it is important to remember that it is much, much better for both of us to have a very successful programme. The big prize for independent production companies are returning series which sustain and appeal to audiences. That is what we want as well. The goals are aligned. When it works there should be proper returns for everybody.

**Mr Johnson:** Overall Channel 4 is the most important single channel for the indies as a whole and PACT, so we are vital to their continued success. To a degree I think it is fair to say that Channel 4 helped invent the independent production sector in this country, which barely existed before the advent of Channel 4. I think their best interests lie largely aligned with ours.

**Q73 Chairman:** In terms of developing your on-demand offering, how important is Kangaroo to you?

**Mr Duncan:** Obviously it is potentially very important. We took a view early on that we needed to be in video on-demand and while we are in an investment phase still, as Luke mentioned, we believe in time it is going to be an important way the public want to get our programming and hopefully a way we can make money. We do not want to make the same mistake the music industry made where if you do not offer a legal service they actually do it illegally anyway and just get it for free illegally. Kangaroo, first and foremost, is hugely in the public's interest. Just in the same way you have one remote control or one EPG for television, you do not want to be going to several different places online to access your different programmes. As a single home for 10,000 hours of programming and with the real audience benefit of cutting through in the confused internet world we think it has huge potential. Obviously we are in the middle of a Competition Commission process so it is hard to comment on that, but we hope that they will see that that is something that is very much in the public's interest. Also, when you look at big companies like Google, Yahoo!, Apple and the ability for them to do whatever they like online, which is having huge structural and economic implications for the UK market, the idea that we cannot do something much more modest in scale and size but that makes real sense for the public and, indeed, working with independent producers as well we would find very strange. We are hoping that we will get the green light. Obviously we are not expecting a final decision until some time early in the New Year.

**Q74 Helen Southworth:** The Ofcom publication of their three models for public service broadcasting in future has given us an interesting set of options. Your responses to it so far seem to be more focused on how quickly it needs to take place rather than how it should be formulated. Can you give me your evaluation of the three different models and let us know which your preference would be, and why?

**Mr Duncan:** The only option they have ruled out, and it is absolutely right, is the BBC-only option. The public first and foremost, and pretty much everybody else, has made it clear that no-one wants only the BBC. The BBC is the cornerstone of the system, but not the only part of the system. In all their three remaining models the Channel 4 role is crucial because Channel 4 remains public purpose in all of those models and we remain the only guaranteed bit of the system, which I think is very,

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very helpful. Our own view is that the need for us to be able to deliver those public purposes in a multiplatform sense is paramount, so with things like education we are doing more of our activities online, and Luke referred to it earlier on, we have to be allowed to move with the times and more where the consumers are going. Beyond that, the key issue in their models is how much can you depend on others to contribute anything over and above that, and it seems to me a system where you have got the BBC and Channel 4 as the two guaranteed bits of the system is vital. There probably needs to be some specific steps to deal with the issues in the nations. It does seem to me there are absolutely issues in Scotland, Wales and Ireland, and maybe the regional news issue that was mentioned earlier on, where specific intervention is needed. Clearly, there may or may not be a contestable pot that others could bid for as well, and that is something I know this Committee looked at and recommended earlier in the year. What I think should focus Government minds is you cannot rely on profit driven broadcasters to do anything, the world has changed, the old deal where you kind of got the franchise in exchange for extracting certain benefits has gone. That is why we are pleased that the role of Channel 4 is absolutely central to any of those models. We do not really mind what the funding solution is, there are pros and cons to different options, we mind that the decision is now made very quickly. It was actually very reassuring at the Royal Television Society Conference last month that for different reasons Michael Grade, Gerhard Zeiler, myself, even Mark Thompson had to concede there was enough debate, enough discussion, let us get on and make some decisions. That is what we are now focused on. For us, it almost does not matter because in all three models the role of Channel 4 is pretty much the one we laid down in *Next on 4*.

**Q75 Helen Southworth:** We have seen some very radical changes in the financial global situation, but certainly in the financial situation in the UK in the past few weeks. What impact are you expecting that to have on your business planning and how robust is your business planning?

**Mr Johnson:** Well, I think we have a pretty rigorous budgeting process. We are going to delay a little bit this year the final budget until the last minute, if you like, to give us more of a perspective on how things are looking because obviously the world is changing very rapidly. Inevitably, the extraordinary flow of bad news can only have a negative impact and I strongly suspect that our projections for revenues next year will only head one way. The issue with advertising is it is 100% gross margin revenue, so it has essentially, once you have made your programming and are running your business, no costs of sale, so if you lose advertising revenue it has a very dramatic effect and you might lose 15% of your top line and you would lose 150% of your bottom line. We are nervous, and that is partly why we have been cutting our costs and will continue to

monitor things very closely. It makes the pressure, the requirement for some sort of solution, even greater.

**Q76 Helen Southworth:** Are you confident that the solutions which are being currently considered take account of the world as it is today rather than the world as it was a month ago?

**Mr Duncan:** It is a live conversation we are having with Government and Ofcom. It is fair to say that our very, very clear position on running the organisation is to try and remain above break-even. We do not need to make a profit to return money to a shareholder, but we have taken the view that we need to cut our cloth in line with revenues such that the organisation needs to break-even. That is painful this year and even more painful next year. Our current view is that the gap that we see going forward possibly is worse now than we previously thought, not by a huge amount but by a reasonable amount. The £150 million figure that we have got for three or four years' time, and clearly it is already here in the sense we are having to make cuts now, we think is still broadly about right. The sorts of solutions being talked about potentially can get you there.

**Q77 Chairman:** You are talking about a fairly sizeable amount of money which you need from the Government, but already the relatively modest assistance that you have received, £14 million, for digital switchover costs is subject to a complaint about State Aid before the European Commission. How do you respond, first of all, to the observations of the European Commission that you do not need this money?

**Mr Duncan:** On the specific £14 million, it is a live case currently being discussed, it is a UK Government case, not our case. They are making the case in Brussels and it is a live issue. One of the problems is when the proposal was first put forward and the complaint first went in we were making much bigger surpluses than we are today and conditions have worsened considerably both cyclically and structurally. One of the other issues is that Brussels wants to understand better how our remit works and the public value that we deliver. That ongoing discussion, in my understanding, is likely to continue for some weeks to come, if not months, and I do not know where it will end up in terms of a final decision. That was very specific, that was only ever about some BBC licence fee paying for some transmission mast build-out costs and effectively should we or should we not receive a subsidy to help with transmission digital build-out costs. It has got nothing whatsoever to do with the broader point about some replacement for our analogue spectrum subsidy. Government and Ofcom are well aware that any of the solutions that may get decided upon early next year will also have to have Brussels in mind in terms of what that means. There are loads of precedents all across

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Europe for allowable state aid to help in terms of public service broadcasting and many mixed funding models. We are optimistic that the case for £14 million is strong, but ultimately that is a decision for Brussels, not us, and more broadly that it will not be connected to the bigger picture point, which is a different set of issues altogether.

**Q78 Chairman:** The Commission has observed from your own published plans that, far from indicating any kind of financial difficulties or challenges, your 2007 statement shows that Channel 4 will not only maintain its core channel offer but will also invest in new media re-launch and invest in new video on-demand services. Given that, you can understand why the commissioner does not think you need additional finance.

**Mr Duncan:** It comes back to the point that it is based on information that is two years out of date. For example, the core channel itself lost money for the first time last year and it will lose even more money this year. We have already talked about the quite substantial programme cuts we are having to make this year and next year. My understanding from the latest set of discussions with them is they are now apprised of where the situation has reached and it is a very different situation to where it was a couple of years ago. Their logic was, if you are getting money to build out the masts but you are making a surplus, how is that going to affect programming? Obviously what we are now saying is we are only breaking even but the core channel is losing money. Even a pound spent on mast build out is a further pound we have to cut from programming.

**Q79 Chairman:** How do you respond to the observation of the Commission, particularly in relation to the amount that you hold in your reserves?

**Mr Johnson:** We have somewhere between £150 and £200 million in cash. At least £75 million of that is required for working capital purposes because there are big fluctuations during the year and each month. The balance is a cushion that may be required in the coming years because we have no certainty at this point that we will get any formal subsidy and if we are to continue to fulfil our remit then we may well have to dig into our reserves because at some point we will be theoretically unable to cut costs further.

**Q80 Chairman:** But that means you will have £75 million in your reserves which is not required for working capital. You are also sitting on a building which is worth £50 million and is unleveraged. Why does the taxpayer have to start providing money when you still have this amount of assets?

**Mr Johnson:** The taxpayer obviously does not. The board has a duty to run the business in a fiduciary responsible manner. I think it would be irresponsible to run through our resources and hollow out the balance sheet with no prospect of any further subsidy or replacement subsidy and the idea that

eventually we would go bust. I made the point earlier that I think Channel 4 delivers outstanding value overall, with £900 million—£1 billion a year of revenue generated from advertising. There is at least £3.5 billion a year compounding at 5% per annum that is devoted towards public service broadcasting. It seems to me that with the overall value we deliver to the broadcasting ecology and to the nation as a whole the sort of gap we are talking about is in the context not too much to ask.

**Q81 Chairman:** Would you accept that if you are to receive government support it may well be necessary for you to make an additional contribution from your own resources?

**Mr Johnson:** There is a model whereby we could short term bridge the gap if we felt there was certainty of some help down the road, but as Andy has said several times, we have been banging this drum for some years now and we want to be sure that there is a solution in sight before we carry on in a reckless manner. I do not think it would be good stewardship of what I think is an incredibly valuable taxpayer resource in Channel 4 to allow it to potentially go onto the rocks simply because there was bickering and no solution was decided on in a timely fashion, particularly given the alarming financial circumstances we find ourselves in.

**Q82 Chairman:** Do you accept that your case to the Government and indeed the general public as to why you need financial support is not helped if you sit on £75 million in your bank account which is not required for working capital?

**Mr Duncan:** To be fair, Ofcom addressed this point very directly in their report where they said no sane organisation would run down its reserves with a lack of certainty. I think our position is very clearly that if we were given certainty it would not cover a huge period of time but it might give you 12 months or so of a transitional shift where you could run the reserves down to some extent, perhaps by £100 million or something along those lines, but it would be very foolish not to have some level of reserves in there. As Luke has mentioned, we have the peaks and troughs within any one month. For example, if government gave us certainty early next year it could be a mechanism to help navigate through the second half of next year and possibly the early months of 2010 ahead of a final solution arriving, but it is very different if we are in a context of certainty versus no certainty.

**Q83 Chairman:** Why was £30 million for half of Box Television a good investment?

**Mr Duncan:** It was a straightforward profitable business. Synergy with our business is very strong. We obviously had all the music programming in terms of Channel 4 and E4. We have a lot of connections with that age group, as we talked about early on. We have bought a half share of a profitable business. We have subsequently relaunched The Hits/4 Music, which is the UK's biggest music channel now and it was making money straightaway. We have been able to use that money.

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The profits that have been made this year we have already been able to put back into the programme budget to help deliver public purposes. It is a very sensible commercial move from our point of view.

**Mr Johnson:** We have been encouraged ever since I have been involved with Channel 4 to diversify into profit-making related activities where it makes good economic sense. They are not easy to find but we do our best.

**Q84 Philip Davies:** In your report it says, “Channel 4 continues to lead other broadcasters in the on-screen portrayal of minority groups”. Is that just politically correct hubris?

**Mr Duncan:** No. It is part of our role as laid down by Parliament. In particular, Channel 4 has a responsibility to cater for the interests of minority groups. Over our entire history and, indeed, today I think we do a very good job of covering voices, perspectives that are not necessarily those in the mainstream. One example of that would be our very strong connection with ethnic minority audiences who disproportionately watch our programming, including the news and in terms of the on-screen portrayal of different voices and different perspectives in Britain, I think it is something that Channel 4 is proud of.

**Q85 Philip Davies:** There is one phrase in here that really irritates me, which I hear from every organisation, it is like the buzz phrase to put in every report, which to me is completely meaningless, that is, “Channel 4 is committed to ensuring that its own organisation reflects the make up of modern Britain”. Every organisation puts this garbage in their reports these days. Is that what you really mean? There is a proportion of modern Britain who are murderers and rapists. There is a proportion of modern Britain who are persistent offenders. Is Channel 4 committed to having a proportion of rapists, murders or persistent offenders involved in its organisation?

**Mr Johnson:** I will ask for that phrase to be eliminated next year!

**Q86 Philip Davies:** You concede that this is a meaningless kind of phrase?

**Mr Duncan:** It is not a meaningless phrase.

**Mr Johnson:** I think you are over-interpreting it!

**Mr Duncan:** The broadcast industry, television broadcasting, is disproportionately southern white male bias, and in terms of reflecting a balance of perspectives and views across the whole of Britain, broadly we think, particularly given our remit, it would be good if our staff representation was more reflective of the UK as a whole. For example, that would include more staff who originated from outside of London, although we are pretty good on that. We are very good in terms of gender balance. In particular I would say, relative to the make up of London-based employees, we are better than most other broadcasters on ethnic diversity but not as good as we could be. Given that we have this particular responsibility to reflect Britain in its

fullest sense and different voices and different perspectives, we think some reflection of that at staff level would be a good thing to have.

**Q87 Philip Davies:** You say on page 38 that the representation of ethnic minorities amongst its permanent staff was 11%. You are now saying that is not good enough. The proportion of people in this country who are from black/minority ethnic backgrounds is 8%, so you are over-represented in terms of the population at large. Does that mean, based on your meaningless phrase that I read out earlier, that Channel 4 is now committed to trying to hire more white people into its organisation in order to reflect the make up of modern Britain?

**Mr Duncan:** It depends how you look at it. If you take the London-based workforce, for example, depending on which statistics you use, over 20% of people originate from an ethnic minority background.

**Q88 Philip Davies:** But you are a national broadcaster.

**Mr Duncan:** I understand that. We have this particular responsibility to cater for the interests of minorities in Britain and reflect those different cultures back. All the mainstream broadcasters, BBC, ITV, ourselves, Five, are committed to trying to increase ethnic diversity representation in terms of workforce.

**Q89 Philip Davies:** What is your target? At what point will you say we have now got enough?

**Mr Duncan:** Funnily enough, I think our core staff level representation is not bad actually; maybe it could be a little bit higher. I think the area where the industry as a whole tends to struggle, and again we are slightly better than others but probably not good enough, is at senior representation. It tends to be the case that you have reasonably good numbers across staff as a whole but less in terms of senior representation. Our main focus internally is on two things: one is on-screen, which is ultimately the most important thing, the programming and the editorial, and, secondly, to the extent that we can improve we would like to see greater numbers coming through at senior level.

**Q90 Philip Davies:** Would you concede that some people might find it rather offensive for a white, middle class, male chief executive and a white, middle class, male chairman, to be—

**Mr Johnson:** How do you know I am middle class!

**Mr Evans:** Or upper class!

**Q91 Philip Davies:** --- making sure that people from ethnic minorities disproportionately get jobs lower down whilst quite happily sat in their positions and not giving up their jobs to somebody from an ethnic minority?

**Mr Duncan:** First of all, we do not have positive discrimination, so in that sense any job in the organisation is selected on merit, and that is true of both senior and junior positions. One of the issues within the industry generally, and I do not think we

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have been particularly guilty of this but it is a feature of broadcasting, is a lot of people historically have got jobs through people they have known, contacts. One of the schemes that we do tries to give access to people from different parts of Britain, disadvantaged backgrounds, that sort of thing, to have access to jobs in the industry that might give them their first start. When all is said and done you are still making individual job choice decisions on merit.

**Q92 Philip Davies:** You say you do not have positive discrimination but you gave a traineeship at *Channel 4 News* to somebody who was disabled and the

qualification was they had to be disabled. Somebody who did not have a disability could not apply. That seems to me like positive discrimination.

**Mr Duncan:** There is a difference between a training scheme specifically designed to give people an opportunity to be trained and full-time permanent employment.

**Q93 Mr Evans:** I think Luke is going to take that meaningless phrase out and then Andy is going to put it back in, in bold!

**Mr Duncan:** I agree it is a very strange phrase.

**Chairman:** I think we have just about exhausted our questions. Can I thank all three of you very much for coming.

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#### Supplementary memorandum submitted by Channel 4

Channel 4 would like to make a brief written submission addressing two of the issues raised by the Committee in the oral evidence session on 21 October 2008.

#### KNTV

At Q59, Philip Davies MP asked Andy Duncan about pre-broadcast announcements for the Channel 4 education programme *KNTV Sex*.

*KNTV* is an award-winning education series that uses a light-hearted comedy approach to deliver educational content to teens. Previous series have focused on philosophy and science, looking at the history of these subjects, key historical characters and quirky facts through a mixture of computer animation and archive footage. *KNTV Philosophy* won an RTS Education award in 2008.

On 17 November 2008, *KNTV Sex* commenced transmission in Channel 4's 11am educational slot.

Each episode of *KNTV Sex* has been prepared with care, following detailed consultation with education experts, and there has been rigorous scrutiny of the content in the light of the Ofcom Broadcasting Code. Channel 4 is satisfied that *KNTV Sex* is completely compliant with the Ofcom Broadcasting Code and suitable for transmission in its intended slot.

Channel 4 precedes the broadcast of each episode of *KNTV Sex* with the following announcement:

“*KNTV Sex* is a frank and educational programme about sex for 14–19-year-olds. The programme is accompanied by a full set of notes for teachers online, including information about sex and sexual themes. The website address appears at the end of the programme.”

This is in keeping with the kind of information provided by Channel 4 when broadcasting similar programming in morning Education slots.

Channel 4 is confident that its press releases about *KNTV Sex*, together with the audience's understanding of the *KNTV* brand and the appropriate pre-broadcast announcements will ensure that those who are charged with the responsibility of protecting minors will be well aware of the content of *KNTV Sex* and will be able to decide whether or not their child should or should not watch the programme.

#### REACH FOR YOUNGER AUDIENCES

At Qq 53–54, Helen Southworth MP asked about Channel 4's reach for younger audiences compared to BBC Three.

In response, Luke Johnson cited core Channel 4's *15 minute average weekly reach* (58%), and in relation to younger audiences Andy Duncan cited the Channel 4 portfolio's *3 minute average monthly reach* (over 90%).

For clarity, Channel 4 thought it would be helpful to provide the Committee with reach figures among younger audiences for Channel 4 and BBC Three across consistent measures: average monthly reach figures are set out in the table below.

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AVERAGE MONTHLY REACH (%)  
AMONG 16-34-YEAR-OLDS, 2007

	<i>3 min</i>	<i>15 min</i>
Channel 4 portfolio	90.8	86.8
Channel 4 core channel	87.2	81.5
E4	55.5	47.4
BBC3	53.2	45.1

*December 2008*

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