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Christine Chapman AM
Chair
Communities, Equalities and Local Government Committee
National Assembly for Wales
Cardiff Bay
Cardiff
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**S4C's Submission:
Communities, Equalities and Local Government Committee - Inquiry into the BBC Charter Review**

Dear Chair

Please find below S4C's submission to your committee's current inquiry relating to the BBC Charter Review process. Given the parallel nature of other parliamentary inquiries in Westminster regarding the BBC's Charter Renewal and Licence Fee settlement we have written in similar terms to David T. C. Davies MP, Jesse Norman MP and Lord Best. S4C has also provided a submission to the DCMS's Green Paper Charter Review Consultation. We will provide your committee with a copy of these submissions for your information.

We look forward to the opportunity to give oral evidence to your committee with regard to the future of S4C and broadcasting in Wales.

The past few years have been a period of significant change for S4C – in terms of re-establishing the organisation as a national institution that engages proactively with public life in Wales, that understands and contributes constructively to delivering its important cultural and social role, that identifies the significant economic impact S4C's investment has in the creative industries in Wales and that places the audience at the centre of all our activities and delivers a high quality service for as wide an audience as possible – in Wales and across the UK.

2014-15 was a year of overall growth for S4C – in particular in terms of online usage – up 31% year on year. Viewing of S4C on television across the UK increased with an average of 605,000 viewers tuning in each week. However, within this picture of growth there are challenges, including financial, technical and linguistic matters, as well as understanding the audience's expectations and responding to the small year on year decrease in viewing within Wales.

We are hopefully entering the next phase in S4C's development in good shape to deal with challenges that may lie ahead.

For the purposes of this response, we have assumed that there will be a proportionate and transparent process or review by which the Secretary of State will be able to ascertain the 'sufficient funding' requirements for S4C for the next funding period in accordance with his statutory duty¹, and also that the current arrangements between the S4C Authority and the BBC Trust are to continue or be transferred to its successor body, subject to such body's independence from the BBC's executive (and depending upon the proposals to be set out in the White Paper).

In this response we concentrate on matters that relate to S4C. We do not offer a view regarding wider issues relating to the BBC's Charter Renewal.

Next week we will be publishing a vision for the future of S4C's services. In this document we will set out options for S4C's future strategy together with information relating to the future of S4C and its funding. We will of course provide your committee with copies of this document and hope that you will be able to join us for the publication of the document.

¹ Section 31 Public Bodies Act 2011

If you require further information relating to S4C we would be happy to answer any questions you may have. Information relating to the performance of S4C's services can be found in [S4C's Annual Report for 2014/15](#). Information relating to the accountability and funding arrangements between the S4C Authority and the BBC Trust can be found in the [Operating Agreement](#) between the Authority and the Trust.

Q - The future provision of the BBC's services in Wales, in both the English and Welsh languages

The importance of reflecting the culture of Wales through the medium of both Welsh and English broadcasting in Wales cannot be underestimated. General PSB (BBC and commercial) investment in programming for and from the nations and regions has seen a significant decrease in recent years. S4C believes that this is a cause for concern and hopes that the needs of the audiences within the nations and regions of the UK will be taken into consideration whilst shaping the next Royal Charter and the BBC for the next ten years.

Wales needs strong local creative platforms for its culture through the medium of English and there is a need for Wales, its talent, its history and its everyday life to be seen more prominently on the public channels of the UK networks. These matters must receive full consideration during the discussions regarding the expectations of public service broadcasting across the UK.

However these questions are separate to those regarding the needs of broadcasting in the Welsh language. There is only one Welsh language channel, compared with hundreds in English, and that single channel must try and provide, for Welsh-speakers, an offering which corresponds to the whole range of international English language television provision which is available.

It is appropriate therefore that its funding needs should be considered in their own right, as has been the case since 1982, and separate to consideration of the BBC's provision for the nations more generally.

S4C is the only television channel that reflects a comprehensive range of Welsh language culture, including coverage of national events – such as the Urdd Eisteddfod, Llangollen International Eisteddfod, National Eisteddfod of Wales, Gwyl Cerdd Dant, Can i Gymru, and the Royal Welsh Show. S4C plays a unique role in relation to the promotion of the Welsh language. Research conducted annually by S4C (and set out in the Annual Report) shows that in 2014, 88% of S4C's audience panel believe that S4C is the channel that has the best coverage of events in Wales, 81% believe that S4C increases their awareness of Welsh cultural events, 83% felt that S4C makes the Welsh language 'come alive' and 81% felt that S4C makes the Welsh language seem more modern and relevant. S4C's partners including national events organisers and partners in the field of life long education also attest to the importance of S4C's provision for their events and for the promotion and development of the Welsh language.

Consideration of the BBC's provision in the Nations should note the BBC's important contribution not only to its own national services but also in Wales to S4C's service. The 10 hours per week of programming produced and provided by BBC Cymru to S4C since 1982 under a statutory provision and also a Strategic Partnership Agreement forms an important element of S4C's PSB service and includes provision in important PSB genres such as news, the Pobol y Cwm soap opera, elements of sport and important events coverage from the National Eisteddfod of Wales.

Q - The BBC's current and future funding, governance and accountability arrangements as they relate to Wales

We do not offer an opinion regarding governance and accountability arrangements for the BBC insofar as they relate to the BBC's own services. However, in relation to S4C's services, the issue of governance and accountability arrangements relating to Licence Fee expenditure are of particular relevance and importance to S4C – since the coming into force of the Operating Agreement in April 2013. Since 2011, the S4C Authority and the BBC Trust have worked closely to develop an accountability and funding framework that would protect S4C's independence whilst at the same time ensure appropriate accountability to the BBC Trust for use of Licence Fee funds. Despite initial scepticism and concerns from some stakeholders, S4C and the BBC Trust have worked hard to make the arrangements work. We have demonstrated that protected

funding arrangements can work and can provide appropriate accountability to the BBC's regulatory body and guardian of the Licence Fee whilst at the same time ensuring the continuing independence of a PSB.

In relation to the public policy discussions surrounding the future of accountability of broadcasting in Wales, as considered by the Silk Commission, it is important to note that S4C, as a public body and a PSB cannot express a view on public policy. However, S4C's submission to the Silk commission set out a number of issues for policy makers to consider and also reaffirmed its willingness to engage with elected representatives in both Westminster and Cardiff Bay with regard to matters relating to broadcasting and the accountability of S4C.

S4C's current governance and accountability arrangements are set out in both statutory provisions and in the Operating Agreement between the S4C Authority and the BBC Trust.

S4C is currently *accountable* to Parliament through statutory provisions and since 2013 is accountable to the BBC Trust (by way of the Operating Agreement) for use of licence fee money. S4C notes the recent MOU agreed between the BBC and the National Assembly for Wales and notes that it would be willing to formalise along similar lines S4C's current relationship with the National Assembly and its committees.

In relation to *governance*, S4C commissioned Sir Jon Shortridge to conduct an independent review of S4C's governance arrangements in 2010, following the Authority's decision to replace the former system of governance known as Arwahanrwydd (separation). Sir Jon made a significant number of recommendations, of which the majority were accepted by the Authority and have been implemented. The system of corporate governance recommended by Sir Jon has provided S4C with effective governance arrangements.

S4C will be submitting evidence to Sir David Clementi's recently announced review of the governance of the BBC, concentrating on S4C's unique relationship with the BBC Trust and Executive and in particular the means by which the Operating Agreement between the Authority and the Trust has created a new and vibrant creative relationship between two independent PSB broadcasters, and protected S4C's independence whilst at the same time ensuring appropriate accountability to the BBC Trust for the use of Licence Fee money.

S4C has a unique relationship with the BBC Trust and the BBC Executive. However, S4C does not offer a view regarding the constitution or responsibilities of a potential successor body to the BBC Trust insofar as its responsibilities would relate to governing the BBC and its services.

That said, the existence of a body which is independent of the BBC Executive itself as the conduit by which funding from the Licence Fee is provided to S4C, and through which ultimate accountability for use of such funds is exercised, has provided an important safeguard of S4C's independence. For example, the current Operating Agreement with the BBC Trust contains 'in extremis' provisions by which the BBC Trust may withhold a proportion of S4C's funding if it believes that S4C is not acting in accordance with the provisions of the agreement. Such a provision would not be used lightly by the Trust and was negotiated as a 'last resort' measure.

In circumstances where potential conflicts could arise between the BBC's own interests and those of an independent PSB such as S4C, it could become very difficult for the BBC Executive to be seen to be exercising independent and objective judgement if its decisions could possibly appear to benefit the BBC itself or its services. In circumstances where the BBC Executive believed that money should be withheld from S4C, there is a danger that the motive for any such decision could be called into question, for as well as acting as arbiter of the provisions of the agreement the Executive would also be the de facto beneficiary of any such action as any amounts withheld from S4C would by default be kept within the BBC Executive's budget.

Such a situation could eventually be counter-productive for the Executive as any such decisions would be questioned, thus potentially leading to diminished credibility for its decisions. This is one example where the model of ensuring accountability to an arms-length body / regulator, such as the BBC Trust in the current arrangements does in practice benefit both S4C and the BBC Executive.

Q - S4C's future, including its funding, operating and governance arrangements, and the services it provides

Next week we will be publishing *S4C: Looking to the Future*, which will set out options for S4C's future strategy, S4C's impact and possible challenges we may face in future. We set out below information relating to funding matters. The answer to your previous question sets out information relating to governance and accountability matters.

S4C's funding – in terms of sources and quantum has changed significantly since 2010. We understand the importance the UK Government has placed on reduction of the public deficit since 2010 and believe that we have dealt with this challenging funding settlement in a positive manner, whilst ensuring that the service we provide our audience is protected as far as possible. The costs that we have taken out of S4C's own operations and the reductions that have been delivered by our partners in the independent production sector are significant, as shown below.

The revised funding settlement set out in the 2010 CSR has required S4C to deal with a real terms reduction of c.36% in its income over the period of the current funding settlement. In cash terms, this equates to a cumulative reduction in funding (not including RPI) of over £65m to date. During this time we have sought to balance our books, whilst at the same time seeking to ensure that the highest possible percentage of S4C's income is invested in front line services for our audience, with 80% of S4C's income being invested in original content from the independent production sector, and also that the economic impact of S4C's activities is maximised for the benefit of the economy in Wales (as set out below).

In addition to dealing with the cash terms reduction of more than £65m since 2010, a [programme to identify further efficiencies within S4C's own operations has been put in place](#) in line with the Operating Agreement between the S4C Authority and the BBC Trust. This programme is designed to ensure that the vast majority of S4C's income is invested in its front line services for our audience. The efficiency targets in the Operating Agreement require S4C to deliver efficiency savings and scope reductions of 15% for the period 1 April 2013 to 31 March 2015, as compared with S4C's 2012 budget.

We have managed, by and large to sustain the current comprehensive service within the current funding settlement, however there have been clear pressures that have affected the service we provide to our audience such as the cessation of S4C's High Definition service, a reduction in investment in childrens' programming, an absence of original drama for a significant number of months each year, changes in the Pobol y Cwm broadcast pattern (including cessation of the Sunday omnibus, due to a reduction in S4C's financial contribution to the BBC). In addition, significant pressures on costs in all content genres have led to a reduction of 35% in the cost per hour of S4C's service since 2009.

A great deal of work has been done by the executive team to review S4C's organisational structure and its activities in an attempt to minimise S4C's internal costs and to maximise the amounts that we can invest directly in content and in production companies across Wales, to ensure the best possible service for our audience. Close co-operation with these producers, providing many of them with longer-term contracts in exchange for lower costs, further increased value for money, and a commitment to training, has enabled overall service hours to be maintained, though with some reduction in the number of hours of the most expensive programming – drama, in particular.

The efficiency programme has already led to efficiency measures and reductions in base costs, not including programme content, of over £12.5m in actual gross savings. On average, each year from 2011 has seen added efficiency of 12% being delivered, as against the 2011 base. In accordance with the Operating Agreement, all efficiencies delivered are retained by S4C to be reinvested in original content for S4C's services.

Further information relating to the implementation of S4C's efficiency and value for money programmes can be found at [pages 52 to 67 of the 2014-15 Annual Report](#).

Given the scale of the reduction in funding and efficiencies implemented to date, it is anticipated that any further savings, given the over-riding priority to maintain quality, would be likely to require a reduction in the range and type of service provided by S4C.

Such measures could include a general reduction in broadcast hours, an increase in the use of repeats and



archive (already at a high level – at 57% of broadcast hours), a reduction in original children’s programmes (replacing them with dubbed acquisitions), a reduction in high cost genres such as drama and documentaries, an inability to resume provision of a HD simulcast service and a reduction in S4C’s current online platform offering (such as the provision of S4C’s content on platforms including BBC iPlayer and YouView) thus relegating S4C from being a universally available PSB service.

Any such measures would impact cumulatively on the service delivered to the audience, its cultural, linguistic and social impact and would reduce S4C’s economic and fiscal impact within the Welsh economy.

Despite our efforts to prioritise investment in original content and therefore to seek efficiencies in the first instance from S4C’s own costs, the quantum of the reduction in funding has already meant an unavoidable reduction in S4C’s ability to offer certain genres of programming – such as high quality original drama and sport. For example in 2013-14, a seven months’ hiatus between new drama series in the traditional Sunday night slot. The audience regularly places high quality original drama at the top of their list of priorities for S4C. Its absence is consequently noted and reflected in the channel’s performance.

Our ability to compete for sports rights has been diminished as a result of substantially increased competition in the market with other broadcasters now being better able to afford to acquire rights which we have previously exploited. This trend is likely to become exacerbated in the near future.

Given the significant increase in usage of S4C outside Wales in recent years as a result of S4C’s new platforms strategy, which includes carriage of S4C on iPlayer, Virgin Media outside of Wales, YouView across the UK as well as certain Smart TVs and games consoles, the inability to provide an HD service is a cause of concern as it appears that there is a latent demand for S4C’s content across the UK.

Increasing the range of platforms upon which S4C is delivered is a strategic priority for S4C. However pursuing this strategy will entail increasing annual costs.

In addition to S4C’s important linguistic and cultural role, we also place significant importance on ensuring that our financial investment in the independent production sector – SMEs in Wales - generates the greatest possible economic impact. In 2014/15, S4C commissioned content and worked with 50 production companies (that are listed in the Annual Report) from across Wales, including in Caernarfon, Llanelli, Swansea and Cardiff.

Independent research (Arad) relating to S4C’s economic impact found that for every £1 S4C invests in the economy in Wales and the UK produces a total value of £2.09. This means that S4C’s investment of £83m in 2014/15 generated a combined effect of £117m on the economy of Wales and £170m across the UK.

S4C notes the importance of ensuring long term visibility and stability of its funding, and also the importance of the Secretary of State’s duty to ensure ‘sufficient funding’ for S4C (as set out in the Public Bodies Act 2011).

S4C is in a unique position in terms of funding structures - and a number of processes are relevant to the discussion surrounding S4C’s future funding. These include (i) the UK Government’s current Spending Review, (ii) the BBC’s Charter Renewal process and Licence Fee settlement and (iii) the overarching duty upon the Secretary of State, set out in Section 31 of the Public Bodies Act 2011, to opine upon and make arrangements to ensure ‘sufficient funding’ for S4C.

The Green Paper referred to the principle of Protected Funding within a future Licence Fee settlement as a means of ensuring specific public policy objectives. The Culture, Media and Sport Committee also recommended in their previous report that responsibility for the (part) funding of S4C should transfer from the BBC Trust to the proposed Public Service Broadcasting Commission.

Protected Funding has been an appropriate means of securing the specific public policy objectives of providing a Welsh-language television service, i.e. S4C.

S4C does not offer an opinion regarding the detailed funding mechanism options (i.e. Licence Fee, household levy or other payment method) for the collection of the BBC’s Licence Fee income in future. The key principle, we believe, is that of universal availability of PSB services, including indigenous language services such as S4C. The level of funding needed to ensure the continued provision of comprehensive PSB services

across the nations of the UK, and the mechanism most likely to deliver this funding, should be the key considerations.

If one accepts the principle regarding “read-across” to S4C funding outlined in the Chancellor of the Exchequer’s letter to the Director General of the BBC (dated 3 July), there is a real danger that any further reduction of Licence Fee income would materially impact upon the funding for S4C that is provided from the Licence Fee.

The process of implementing the 2010 agreement regarding the transfer of the bulk of S4C funding from DCMS to the Licence Fee required protracted negotiations between the S4C Authority and the BBC Trust in order to secure an Operating Agreement which protected S4C’s editorial, managerial and operational independence, while putting in place an accounting mechanism which provided for ultimate accountability by the BBC Trust for use of Licence Fee funds. Furthermore, as public service broadcasters, with a shared history of providing services in the Welsh language, the core objectives of the BBC and S4C are closely related, so that a clear demonstration could be made that S4C’s activities were simultaneously contributing to the BBC’s public purposes. It may well be that such a relationship is, in fact, unique, and does not in itself provide an argument for the more widespread use of the principle of Protected Funding.

S4C believes that the process for arriving at the quantum of such protected funding should be by way of a specific process to ascertain the ‘sufficient funding’ needs of S4C. The level of funding should be set in advance of a Licence Fee Settlement during the Charter Renewal process and should be negotiated and agreed in a transparent and open manner between Government, the BBC’s future governing body and the relevant party, in this case the S4C Authority.

Q - How Wales’s interests are being represented during the renewal process.

S4C believes that it will be important to ensure an appropriate place for S4C and the wider interests of public service broadcasting in Wales as part of the Charter renewal process. The importance to S4C of engaging with stakeholders to ensure an understanding of S4C’s position and requirement is paramount, especially in the context of Charter renewal and the process or review for ascertaining the ‘sufficient funding’ of S4C.

S4C has nurtured a constructive relationship with stakeholders over recent years. These include the Secretaries of State for Culture, Media and Sport, and for Wales and their officials, Welsh Government, Assembly Members and Members of Parliament, and the BBC Trust and the BBC Executive in London and Cardiff. S4C believes that these relationships will be key to ensuring an appropriate process or review of S4C’s long term strategy and funding as it will be important for stakeholders to be able to contribute to the process of ascertaining sufficient funding for S4C and be able to demonstrate the added value that S4C can provide to organisations across Wales through working in partnership.

The “read-across” to S4C funding outlined in the Chancellor of the Exchequer’s letter to the Director General of the BBC (dated 3 July) means that it is important to ensure a clear understanding and agreement in relation to the underlying principles and how such a read-across would be implemented as part of the wider process or review of S4C’s sufficient funding requirements. We also believe that it will be appropriate and important to take into consideration the substantial funding reduction S4C has already implemented when considering fair and sufficient funding over the forthcoming period, given S4C’s reduced ability to deal with further reductions without impacting upon the type of service that can be provided for the audience.

As part of ensuring the totality of Wales’s needs and expectations are taken into consideration during the Charter Review process, we believe that it is important to ensure a proportionate and transparent process or review by which the Secretary of State will be able to ascertain the ‘sufficient funding’ requirements for S4C for the next funding period in accordance with his statutory duty. The timing of the various decisions which impact upon S4C’s funding creates uncertainty in establishing how S4C will continue to receive sufficient funding, and such complexities should be taken into consideration as part of any review of S4C’s sufficient funding requirements and its ability to commission content in the long term and to provide stability to the independent production sector in Wales.



We look forward to discussing the matters set out in this letter and matters relating to the BBC Charter Renewal process and the future of S4C with you and your committee at your earliest convenience.

Yours sincerely

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Chairman, S4C Authority

Ian Jones
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