



Cynulliad Cenedlaethol Cymru
The National Assembly for Wales

Y Pwyllgor Darlledu
The Broadcasting Committee

Dydd Llun, 12 Mai 2008
Monday, 12 May 2008

Cynnwys
Contents

- 3 Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions
- 4 Tystiolaeth ar gyfer Ymchwiliad y Pwyllgor: ITV
Evidence for the Committee's Inquiry: ITV
- 18 Tystiolaeth ar gyfer Ymchwiliad y Pwyllgor: Channel 4
Evidence for Committee Inquiry: Channel 4

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Alun Davies	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Nerys Evans	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Stuart Cosgrove	Cyfarwyddwr y Cenedloedd a'r Rhanbarthau, Channel Four Television Corporation Director of Nations and Regions, Channel Four Television Corporation
Andy Duncan	Prif Weithredwr, Channel Four Television Corporation Chief Executive, Channel Four Television Corporation
Michael Grade	Cadeirydd Gweithredol, ITV ccc Executive Chairman, ITV plc
Michael Jermey	Cyfarwyddwr, Rhanbarthau ITV Director, ITV Regions
Elis Owen	Cyfarwyddwr Cenedlaethol, ITV Cymru National Director, ITV Wales
Nick Toon	Cyfarwyddwr Cysylltiadau Corfforaethol, Channel Four Television Corporation Director of Corporate Relations, Channel Four Television Corporation

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Sarah Bartlett	Dirprwy Glerc Deputy Clerk
Aled Eirug	Ymgynghorydd i'r pwyllgor Adviser to the committee
Gwyn Griffiths	Cynghorydd cyfreithiol i'r pwyllgor Legal adviser to the committee
Chris Reading	Clerc Clerk

Dechreuodd y cyfarfod am 1.36 p.m.
The meeting began at 1.36 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Alun Davies:** Galwaf y cyfarfod i **Alun Davies:** I call the meeting to order.
drefn. Yn gyntaf, croesawaf bawb i First, I welcome everyone to the fourth

bedwerydd cyfarfod y Pwyllgor Darlledu. Mae cyfieithiad ar gael. Dylai pob ffôn symudol gael ei ddiffodd ar gyfer y cyfarfod.

meeting of the Broadcasting Committee. Interpretation is available. Every mobile phone should be switched off during the meeting.

[2] Cyn dechrau'r pwyllgor yn swyddogol, hoffwn wneud ambell ddatganiad ar gyfer yr Aelodau. Fel y gwyddoch, buom yn trafod gyda'r Pwyllgor Dethol ar Faterion Cymreig yn San Steffan sut i gydweithio ar y gwaith hwn. Hoffwn, gyda'ch caniatâd, wahodd Aelodau Seneddol ar y pwyllgor dethol i ymuno â ni yn ein sesiynau nesaf. Os ydych i gyd yn hapus gyda'r syniad hwnnw, symudwn ymlaen ag ef.

Before I start the meeting officially, I want to make some announcements for Members. As you know, we have been discussing with the Select Committee on Welsh Affairs at Westminster how we can collaborate on this work. With your permission, I would like to invite Members of Parliament on that select committee to join us for our next sessions. If you are all happy with that idea, we will move forward on it.

[3] Yn ail, bu i ni ofyn i sefydliadau a mudiadau perthnasol gyflwyno tystiolaeth ysgrifenedig i ni, ond nid ydym wedi gofyn i'r pleidiau gwleidyddol wneud hynny. Ni wn pam nad ydym wedi cynnwys y pleidiau, ond byddaf yn gofyn iddynt gyflwyno tystiolaeth ysgrifenedig i'r pwyllgor erbyn diwedd mis Mai. Gofynnaf i Aelodau siarad â'u pleidiau a threfnu bod hynny'n digwydd.

Secondly, we asked the relevant organisations and establishments to present us with written evidence, but we have not asked political parties to do so. I do not know why we have not included the parties, but I will ask them to submit written evidence to this committee by the end of May. I ask the Members present to talk to their parties and to arrange for that to happen.

1.38 p.m.

Tystiolaeth ar gyfer Ymchwiliad y Pwyllgor: ITV Evidence for the Committee's Inquiry: ITV

[4] **Alun Davies:** Yr ydym yn cymryd tystiolaeth gan ITV a Channel 4 y prynhawn yma. Hoffwn groesawu cynrychiolwyr ITV i'r pwyllgor. Yr ydym yn falch o'ch gweld chi yma, a gwerthfawrogwn yr amser yr ydych wedi'i gymryd i ddod i'r cyfarfod. Gwerthfawrogwn hefyd y papur ysgrifenedig a gafwyd gennych. Gallwch ei gymryd yn ganiataol fod Aelodau wedi darllen eich papur.

Alun Davies: This afternoon, we are taking evidence from ITV and Channel 4. I would like to welcome the representatives from ITV to the committee. We are pleased to see you here and we appreciate the time that you have taken to attend the meeting. We also appreciate the written paper that you have submitted. You can take it as a given that Members have read your written paper.

[5] A allwch gyflwyno eich hunain ar gyfer y Cofnod a nodi pa faterion a amlinellir yn eich papur yr hoffech eu codi y prynhawn yma? Bydd yr Aelodau wedyn yn eich holi.

Could you introduce yourselves for the Record and note which issues outlined in your paper you would like to raise this afternoon? The Members will ask questions.

[6] **Mr Grade:** I am Michael Grade, chairman of ITV plc.

[7] **Mr Owen:** I am Elis Owen, national director for ITV Wales.

[8] **Mr Jermey:** I am Michael Jermey, director of ITV regions.

[9] **Alun Davies:** Would you like to say some words of introduction on your paper?

[10] **Mr Grade:** Thank you, Chair. I will be very brief, because the value of this occasion will inevitably be in the debate that we hope to have. I will make three brief points, if I may.

1.40 p.m.

[11] First, there is a general misconception that digital switchover will happen by 2012, but it has already happened. What happens at the end of 2012 is that the analogue signal will be switched off. However, between 80 and 90 per cent of homes in the British isles have now availed themselves of multichannel digital television on one platform or another, such as Sky, Freeview, cable, satellite, and so on. So, we are not looking at a timeframe that will suddenly emerge at the end of 2012; we are already in the competitive world of multichannel digital television.

[12] Secondly, as a matter of public policy, a deal has been struck on the development of broadcasting that, over the years, has fallen into disrepair. The deal that was struck was that people would apply for commercial broadcasting licences that were worth a considerable amount of money, and, in return for that quasi-monopoly, the recipients of those licences would undertake to deliver a high volume of good works of one kind or another. The Office of Communications, the broadcasting regulator, has calculated that the value of that licence today, in a world where there is pretty much 90 per cent digital penetration, would be about £40 million a year. The fact is that ITV, in its present configuration, delivers well over £200 million a year of 'good works', and that is not a sustainable business model. The implications of that for national and English regional broadcasting are profound, and you may wish to explore that issue today, among other things.

[13] **Alun Davies:** I am sure that we will. Thank you for that, Mr Grade. In fact, I would like to start with that final point. I believe that when you were last speaking in Cardiff—you made a speech here last June—one theme that you followed was the sustainability of broadcasting in the nations and regions. Could you talk us through some of the issues with regard to how you see the current model affecting sustainability, and the changes that you would like to see made to the public policy environment, or perhaps changes that you are making in ITV to ensure sustainability for the future?

[14] **Mr Grade:** The work that Ofcom has done, independently of ITV, has demonstrated that this model is not sustainable, and that has implications. The principle that has underpinned British broadcasting is that the value of the licence enables broadcasters to guarantee the delivery of certain genres of programmes. ITV would like to go on doing what it presently does for as long as it possibly can; however, we cannot guarantee that. It is a pressing issue of public policy that we live in a world where the BBC could conceivably end up as the sole purveyor of international, national and particularly nations and regions news—nation for nation, region for region. One might call that a severe democratic deficit. The market is presently and, as far as one can see, for the future incapable, economically, of delivering that, or of delivering the certainty that the public and our policy makers want to see. We are in an age where the private sector cannot guarantee to deliver.

[15] **Alun Davies:** Can you explain why that is? I think that you said last June that the licence for, I assume, Wales and the west—and I do not know whether you can differentiate between Wales and the west, internally—had the highest regional cost of the network, and that 80 per cent of its revenues were ploughed back into the network. Can you explain why that specific problem exists in Wales?

[16] **Mr Grade:** There is no specific problem in Wales; the specific problem that you identified applies right across the United Kingdom. It applies in the English regions and in Scotland, which has a separate licence, because Scottish Media Group plc was not consolidated in the last round of regional and national consolidation in the UK. Therefore,

this is a problem across the whole of the UK, and the provision of regional and national news and current affairs programming is a serious issue for everyone, because of the economics. It is because the balance used to be in favour of the licensee, in the deal that I described—and the licensees were the ITV companies, which made lots of money—but the balance has now tipped the other way. That is partly due to the competition that ITV now faces from competitors that did not exist 10 years ago. Google and so on are out to eat our lunch—and our tea, dinner and breakfast. There are now hundreds of channels that chip away at our revenue, which was not the case before, although it is a perfectly good competitive world. However, the licence no longer has much value, or at least not to the extent that we can maintain the deal that we used to be able to.

[17] **Paul Davies:** I will concentrate on your public service obligations. You mentioned that the licence does not hold much value for you at the moment. Are the press reports therefore true, namely that you are ‘running the numbers’ on the cost of handing back ITV1 licences?

[18] **Mr Grade:** In a recent publication, Ofcom raised the issue that there may come a point at which ITV would want to consider, from a shareholder’s and the business model’s standpoint, whether to give up its public service broadcasting licence and to take its chance in the digital spectrum world. So, the proposal has come from Ofcom. Naturally, when you get a document like that from Ofcom, you look at it and start to debate it. The possibility of a different licensing arrangement for ITV has always been in our minds. I would much prefer to reach a new settlement, if I possibly can.

[19] **Paul Davies:** Have you come to any financial conclusions yet?

[20] **Mr Grade:** No, it is very early days for our debate. My board is fully conversant with the issues in this debate, and we have a lot of time set aside to discuss our final response to the Ofcom consultation document, but, at this stage, it is far too early to go nap on any solution.

[21] **Paul Davies:** In the future, what forms of public subsidy would you accept for showing public service programming?

[22] **Mr Grade:** I am on record—and I am happy to do so again today—as saying that we do not believe that public subsidy is appropriate for a free-market private broadcaster like ITV. There are two reasons for that. The first is that whatever public subsidy might be offered, it would really compensate only for the potential cost of the programmes, and not for the opportunity cost of running loss-leading programming, which depresses ratings, advertising sales and so on. It is unlikely that we would get a public subsidy to cover us for all that, so it becomes an utterly uneconomic prospect. The second reason is that we are arguing desperately to get out of the legacy of historic regulation and prescription. Once you start taking public money, the freedom and flexibility that you need to operate in a market as dynamic and fast-changing as ours is severely constrained. We are trying to get the freedom to operate as a business, and not to add more regulation to our ability to compete in the market.

1.50 p.m.

[23] **Alun Davies:** I would like to press you a little more on that, Mr Grade. Essentially, ITV as it is today is a creature created by public subsidy. It was gifted spectrum from the 1950s through to today. It exists in its current form because you have—

[24] **Mr Grade:** Forgive me, but it is not gifted: we pay for it.

[25] **Alun Davies:** I accept that. However, you have a privileged position within the broadcasting ecology. You have had that as a result of public policy and, as you have said before, it has been a deal: public money, support, or subsidy, in whatever form it is given, equals public responsibilities in the form of public service broadcasting and so on.

[26] **Mr Grade:** That is correct.

[27] **Alun Davies:** I accept that. I do not understand why, therefore, if ITV as a business has developed and been sustained by that, there appears today to be a crisis that means that it can no longer continue in that form. It does not seem to me to be a point of principle.

[28] **Mr Grade:** I do not think that I used the word ‘crisis’, Chairman; we have a problem that needs to be solved in the interests of ITV as a business going forward. ITV as a business can invest the best part of £1 billion per year in the UK creative industries, and, of course, for the UK in providing a vibrant plurality of supply of news, current affairs, and so on. What has changed is that spectrum is no longer scarce; technology has decreed that a thousand flowers can bloom. There is no barrier to entry any more. As a group here today, we could decide to start a digital channel and we could go into business tomorrow. In the old days, spectrum was extremely scarce and carefully parcelled out in beauty parades, and not on a financial basis—it was at the end, but in the early days it was a beauty parade. The number of wonderful programmes that you were going to put on would give you the licence. However, that was a function of spectrum scarcity, which is no longer the case.

[29] **Alun Davies:** You are certainly right to say that any of us could establish a digital channel. We could establish a channel through the web and broadcast with no difficulty at all. What we could not do is broadcast on channel 103. That provides a very real benefit to you and your shareholders. My assumption is that the presence of ITV in the channel 103 slot and the channel 3 licence gives you a continuing place in the broadcast ecology. That enables you to create a business model that has, in the past, been very successful. We accept that recent years have been difficult, but it gives you a pre-eminent place among all other commercial broadcasters. You appear to be saying, ‘Give us the space, but do not give us the responsibility’.

[30] **Mr Grade:** No. Forgive me, Chairman, but what I am saying is that of course being on the multiplex D3 and D4 has benefits; being available to 98 per cent of the UK public has a benefit. We have guarantees that we must be carried on other platforms, particularly Sky, and we have guaranteed positions on the electronic programme guides. There is a benefit to that. Ofcom has quantified that benefit, and has said that it amounts to £40 million per year. I am more than happy to give you £40 million in cash, in kind, or in programmes; I will make that deal. However, whatever the number is eventually—and we think that it is nearer to £25 million, but we are not here to negotiate, although old habits die hard—we are prepared to recognise the value of that privileged position, but it is considerably less than what we spend today, which is well over £200 million every year on ‘good works’.

[31] **Alun Davies:** Are you suggesting that you would be prepared to go to your shareholders, Mr Grade, and say to them, ‘We are interested in only 73 per cent of the population; we can do without the public service multiplexes. We do not want channel 103; we would be more than happy to compete with the GOD Channel on 705 or wherever.’? Do you see that as a reasonable business plan?

[32] **Mr Grade:** I think that we could achieve significantly more coverage than 73 per cent by just going down the straight digital route.

[33] **Alun Davies:** Do you believe that you could maintain your audience share?

[34] **Mr Grade:** What creates the audience share? It is *Coronation Street*, *Britain's Got Talent*, *The X Factor*, *Kingdom*—those are the programmes that create the audience share. People do not say, 'I will watch channel 3—there is always something good on channel 3'. They watch specific programmes, and those programmes are huge brands. ITV is a bit like Unilever, or Reckitt Benckiser—we are a big company, and we manage a lot of brands, and they are called programmes.

[35] **Alun Davies:** However, if people could not find those programmes, there would be a problem. The point that I am trying to make is that the place that you have on the EPG, and the space that you have on the public service multiplexes, is fundamental to your business plan for the future. You say that we have been through the pain of digital switchover, to a large extent, and I agree with that analysis—I do not think that there will be any great shock next year in Wales, because we are ahead in digital penetration compared with the rest of the United Kingdom. People have gone through the pain of watching 1,000 channels, and now they are back to watching the usual dozen or 15. So, I accept that analysis, but what I find more difficult to accept is your threat to give back the channel 3 licences—

[36] **Mr Grade:** Chairman, I wish to be very clear that I am not threatening anything. Ofcom has suggested in one of its options—[*Interruption.*] It is option 3; thank you, Nigel. Option 3 is that ITV might consider that the best future for itself and its shareholders, advertisers and viewers is without a PSB licence. I think that we are on the same side, Chairman—we are saying that there is a residual value in the licence. What I am saying is that it is quite easy to identify that residual value, and I would rather go down that route and pay whatever it is agreed is the value of the licence, and deliver that in kind. It will not be the value that it presently holds, so we will not be able to maintain many of the things that we do today. 'Maintain' is the wrong word, perhaps—I will say 'guarantee'. We will sustain everything that we do for as long as it is economically possible, but, from a public policy standpoint, that is not the same as a guarantee. If it is deemed by the policy makers in the nations that the interests of democracy are best served by a plurality of supply of news and current affairs, and so on, you are entitled to ask for a guarantee that that will be delivered. The private sector will absolutely not be able to guarantee that.

[37] **Peter Black:** Just to pick up on that theme, I am interested in how devolution will impact upon your plans for the future provision of news, current affairs and non-news programming. A democracy has been created in Wales, and is flowering, and there is scrutiny of that democracy. What impact does that have?

[38] **Mr Grade:** We presently operate under a licence that is very prescriptive in terms of what we do. In many cases, we exceed the prescribed level of provision of news and current affairs coverage, and we will continue that while we have that obligation. However, what Ofcom has signalled, in its public service broadcasting consultation document a few weeks ago, is that there is a serious problem. There is a problem with Channel 4, which I think you will come on to later, as regards the sustainability of its economic model, and there is a serious problem with the sustainability of the private sector when it comes to guaranteeing the delivery of what it presently delivers. It is just not possible—that is where we are.

[39] **Peter Black:** I accept that, and I am interested in where you are going, in that respect. I understand, and you have explained in some detail, the economic issues that you face, and the choices that you face. I understand that, in many cases, you may end up scaling back the non-news side of your public service obligation. You said that, for viewers of ITV Wales, there would be no substantive change to the pattern of the news service, with *Wales Tonight*

[40] 'continuing to provide unrivalled coverage of the nation',

[41] and so on. However, there are other flagship programmes in Wales, such as *The*

Sharp End, *The Ferret*, and a number of other non-news items, which provide useful scrutiny of the Welsh democratic model in this brave new world post Ofcom.

2.00 p.m.

[42] **Mr Owen:** You are quite right that the proposals before Ofcom, for news in particular, would have *Wales Tonight* and our bulletins as a stand-alone news service. As regards the other programmes that you mention, yes, we do produce those now, but we are also governed by Ofcom. That number goes down from four hours this year, including news programmes, to three hours next year, and will probably decline again, which is what Ofcom is saying. We will produce those programmes for as long as we can, but, in the end, we are governed by our regulator.

[43] **Peter Black:** Do you think that you have a particular moral obligation, if you like—and I understand that ‘obligation’ is a difficult word to use in a commercial world—in the sense that because we have a devolved model of government in Wales, perhaps you need to do a bit more here than you might need to do in the regions of England?

[44] **Mr Grade:** That is a matter for the regulator; we are in the business of running a business and abiding by the provisions of a detailed broadcasting licence. We are clearly arguing and debating with Ofcom, and Ofcom is debating with the rest of the world, what arrangements need to be put in place going forward and how British broadcasting is going to reorganise itself. There are long, medium and short-term issues. In the short term, we abide by our licence at all times. We will exceed the provisions in our licence if we feel that our shareholders will get a return; if we do not believe that the shareholders can get a return from exceeding the requirements of the licence, we will not do it.

[45] **Peter Black:** I will move on to a slightly different area, in terms of what you do in Wales with regard to the commissioning process.

[46] **Alun Davies:** Peter, I would like to complete questions on the area of regional programming before we move on. Nerys is next.

[47] **Nerys Evans:** Thank you for your evidence. What is your spend on the ITV Wales service?

[48] **Mr Grade:** I think that it is just over £9 million per annum.

[49] **Nerys Evans:** On quotas, and you mentioned before your dislike of quotas for the nations and the regions, do you acknowledge that there is a net market failure and that commissioners are risk-averse with regard to choosing commissions from independent producers whom they have not built relationships with? ITV has tended to invest in productions in established bases in Manchester and Leeds to fulfil its out-of-London quotas. If quotas cannot be used to break down these barriers, what do you think could be done?

[50] **Mr Grade:** The reason why, after 30 years in broadcasting, I am utterly opposed to quotas is because they put the interests of producers before the interests of the audience. Our duty is to serve the audience, and it is not served by quotas or prescription of any kind. As to how network-standard production can be stimulated in Wales, as far as ITV is concerned, we are very proactive. Our commissioning people are the people with the chequebooks who sign off on what programmes get made. They are very proactive in holding regular sessions with producers in Wales about what we are looking for and to hear some of their ideas, but, in the last few years, that has been a fairly barren exercise. The ideas are not coming forward—it could be that we are not picking them, but I do not think that that is true because we are not that rich in hit shows that we can afford to turn down great ideas. It has not been a great

period. ITV2, for example, is a booming digital channel—the biggest of the non-PSB channels—and has quite a considerable budget for programmes, indeed, the biggest budget for programmes of a digital channel. It has not had one submission from a Welsh producer, certainly in the last year. In the end, this is a business of selling. People who are wonderfully creative have to learn how to sell, as well as how to create wonderful programmes.

[51] The good news is that by luck, by accident, by design, Wales's reputation as a centre of international and world-class fiction production through the BBC's initiative—what I would call the Russell T. Davies empire—is going to stand you in tremendous stead in terms of reputation and basic skills base. The levels of that skills base are improving. Nobody today would have any compunction in saying, 'We can make this programme in Wales' or, if a great idea came out of Wales, the days when you would say, 'We love your idea, we love your script, but you will have to make it in London because you cannot make in Wales', are over. You are over that barrier, and it was a huge hurdle to have overcome. I cannot begin to describe how big a hurdle that was and what the achievement of the BBC here in Wales is. I hope that the independent producers in Wales on whom we depend will respond to that and become more in tune with what the ITV network is looking for. We would certainly have the confidence to produce here. *The History of Mr Polly* was produced by ITV Productions in Wales very happily. What are not coming to us are great ideas, frankly.

[52] **Alun Davies:** I saw a transcript—not a video tape, so I am not sure what the commission's reaction was—of your meeting with the Scottish Broadcasting Commission, and you said:

[53] 'The brutal truth is that the ideas aren't here'.

[54] In that case, you were talking about Scotland. Do you believe that that is the situation in Wales?

[55] **Mr Grade:** No, but there are no ideas coming to us that we are excited about. There are not enough ideas. There is a kind of 10 per cent rule: of 100 ideas, 10 per cent go to the next stage, 10 per cent of those go forward, 10 per cent of those get on the air and 10 per cent succeed—no, hopefully, 51 per cent succeed. The Scottish problem is different because SMG plc has been through a very difficult time. It was a powerhouse of production for a while. However, the drama skills that are on the screen and visible here are a fantastic calling card for Wales going forward. However, it is early days. These things take a long time.

[56] **Alun Davies:** You told the Scottish Broadcasting Commission that S4C had created the infrastructure to which you just referred—along with *Doctor Who* and the BBC. If that happened in the 1980s, I am interested to know whether this infrastructure will ever come to fruition.

[57] **Mr Grade:** There are some very enterprising and entrepreneurial production companies here in Wales. The injection of public money into S4C has given Wales a huge advantage, but Hollywood did not become Hollywood overnight; it took years and years. It will take time, but you have the advantage of a ready-made customer with a guaranteed source of funding, which primes the pump, and from that come better things. As far as ITV is concerned at present, not a lot is coming forward that we are excited about.

[58] **Alun Davies:** Can you tell us how many commissions you have placed in Wales in the past three or four years?

[59] **Mr Grade:** Very few.

[60] **Mr Jerney:** Very few. In the past two years for ITV 1, I do not believe that there has

been one.

[61] **Alun Davies:** There have been none at all.

[62] **Mr Grade:** No. That is not a deliberate act—

[63] **Alun Davies:** I did not take it to be.

[64] **Mr Grade:** We operate a meritocracy.

[65] **Alun Davies:** This is an interesting question, because many people say that they operate a meritocracy without ever defining what a meritocracy is. Have you invested the ITV regional production fund, for example, in Wales?

[66] **Mr Jermey:** The ITV regional production fund team was here in March. The team talked to something like 60 producers and a really useful dialogue was had about the sorts of ideas that ITV is looking for. Advice was sought and given. Several Welsh independent companies and producers went to a similar session in Manchester. So, there is very active engagement. We have a drama that has been developed through that and for which funding has gone into development work. It has not yet been commissioned; we will see what happens there. However, there certainly has not been a lack of willingness on our side to try to develop a relationship with Welsh independent production companies.

2.10 p.m.

[67] **Mr Grade:** Chair, on your point about what a meritocracy is, I will give you a graphic example. ITV has its own production business called ITV Productions. Under the statute, we are able to produce up to 75 per cent of our needs through ITV Productions. In our most recent accounts for the year 2007, ITV Productions delivered 50 per cent of the network's requirements. So, 25 per cent went begging, but that is a meritocracy, and the 50 per cent that ITV Productions delivered was on merit. If that is not a meritocracy—which means putting the best ideas from whatever source on the screen—I do not know what is.

[68] **Alun Davies:** I appreciate that, and I am not suggesting that ITV or any other broadcaster intentionally prevents independent producers from Wales or anywhere else from meeting commissioners and pitching ideas to them. My suggestion is that something more subtle than that happens. The Producers Alliance for Cinema and Television gave us some very good evidence a few weeks ago, when it suggested that there is almost a lazy attitude—that there is an unintentional discrimination. I do not like using the word 'discrimination', because it is not a particularly good word in this context, but what I am trying to describe is that commissioners within ITV and other broadcasters seek to work with independent companies that they know, trust and are familiar with—that they have known for some years. That quite personal process, which is always important in any business—I accept and understand that—prevents others from joining the competition.

[69] **Mr Grade:** It is a tough world. If you choose to be an independent producer, you have to break in. If you want to be an actor or a television executive, it is a very tough world. You must have very sharp elbows, be a smart salesman and be absolutely determined. I have great difficulty in understanding why broadcasting is different to any other business, such as retailing. I bet that Marks and Spencer does not have to have these conversations about its suppliers. What is the difference? Obviously, the product is different, but the relationship is the same; we want the best product for our customers, and we work hard to get it. If you want to supply Marks and Spencer, you must work very hard to knock out the existing and trusted suppliers whom the customers are voting for with their spend and be better than them. Marks and Spencer is not dishing out handouts to suppliers because they are nice people—it has a

business to run and we have a business to run. Our suppliers must understand that it is a very tough world. I would have the same conversation with smaller or new production companies in London who perhaps work half a mile from where we are. It is a very tough world, and, as long as we treat everyone equally, they have to stop expecting us to featherbed them in some way.

[70] **Alun Davies:** I understand that, but, of course, Marks and Spencer does not have a guaranteed place on every high street.

[71] **Mr Grade:** Indeed.

[72] **Nerys Evans:** Following on from those figures, do you consider that ITV is fulfilling its obligations as set out in the Communications Act 2003 to reflect UK cultural identity?

[73] **Mr Grade:** I do not think that you can ever sign that off and say, 'Yes, we have done that'. On whether we aspire to that and whether there is plenty of evidence on the screen that we do, I would say 'yes', that we do that absolutely in abundance across a whole range of programming, whether it is the arts through *The South Bank Show* or dramas that we produce about life in the north-west, north-east, East Anglia or Cornwall. We try to reflect, as best we can through the inspiration of writers and producers, life in the British isles. That is our stock in trade.

[74] **Nerys Evans:** You say in your statement of programme policy that ITV's strong regional identity extends well beyond its dedicated regional output into network programming that features the nations and regions strongly through settings and storylines. How is Wales featured strongly in that regard?

[75] **Mr Grade:** I do not think that it has been of late. We are back to the previous question as to where the creative inspiration comes from and where the writers and the filmmakers are who have the ideas that will earn a place in the ITV1 prime time schedule. Quite often, Welsh writers do not want to write about Wales necessarily; they want to write about the human condition in some context other than a narrow nationalistic one—I do not mean 'narrow' pejoratively, but as against the wider human condition.

[76] **Nerys Evans:** How do you monitor that statement—

[77] **Mr Grade:** We do not monitor it. In the end, good programmes come from brilliant producers and brilliant writers. Nobody said to Russell T. Davies, 'We're bringing back *Doctor Who*. Would you like to write it? You have to set it in Cardiff.'. That was in his head, and that is what he wanted to write about. That is how he saw it. It is about the creative process. We have programmes that count as London content that are exclusively shot in Cornwall, East Anglia, and various other places. They are regarded as London produced. I do not regard *Doc Martin*, which is shot completely in Port Isaac in Cornwall, as a London production, but Ofcom does, for some reason.

[78] **Alun Davies:** I do not think that it is something that the committee understands either. [*Laughter.*]

[79] **Paul Davies:** You mentioned creativity and the fact that ideas are not coming forward to you, but given ITV's major production bases in Manchester and Leeds, is there any serious possibility of Wales ever getting regular network commissions from the network?

[80] **Mr Grade:** As I said, we commission the best ideas from wherever they come. We do not mind where they are made. We do not want to be told where they should be made. We will make them where it is right to make them, that is, in the appropriate location. You would

not want to shoot a show about London in the countryside of central Wales. However, it is about where and what the writers want to write about. People watch stories; television is about storytelling, and we want the best stories, so I do not mind where they come from. It is not a matter of our going out and telling people precisely what we want; you have to get something back from the creative community about what it wants to do. It must be in tune with our station—people must look at ITV1; they may say, ‘I’ve got this brilliant idea.’, but it might be that, were you to play it against *Waking the Dead* or some other big BBC hit, it would die because nobody would watch it, so that would not be one for ITV1.

[81] **Paul Davies:** You have major production bases in Manchester and Leeds however, and not in Cardiff, for example.

[82] **Mr Grade:** That is a historic legacy from the days of the federal ITV monopoly when you had the five major companies. Known as ‘the Five Majors’, they were London Weekend Television, Thames Television—of blessed memory—ATV Central, Yorkshire and Granada. They were the major five companies, and they were responsible for providing network programming. Then you had the next category, which consisted of Anglia, the Welsh station, the name of which I cannot remember.

[83] **Mr Owen:** HTV.

[84] **Mr Grade:** Yes, HTV. Sorry, I nearly said TWW. I was going back three licences ago. There was HTV Wales and HTV West, Southern, Meridian—there were all these minors, as they were called, as opposed to the majors. Of course, with no independent producers in those days, the majors had the sole responsibility for the whole of the network schedule, and they had huge production factories in the major cities. That is the historic legacy. There is now only one in London. There used to be two; there used to be Thames and LWT.

[85] **Nerys Evans:** With regard to the lack of commissions from Wales and with regard to the previous question about Wales not being featured strongly through settings and storylines, is it fair to say that Wales is being poorly represented?

2.20 p.m.

[86] **Mr Grade:** I think, at a network level, yes. The implication of your question—I may be being paranoid—is that that is somehow deliberate. It is just that there are lots of parts of the UK that do not often get represented in a major way on the network. As far as ITV is concerned, Wales has been through a fallow period, but there is no reason whatsoever why it should remain fallow. However, I would agree with you that we have not seen enough.

[87] **Alun Davies:** I accept that and I do not think, for one moment, that it is an intentional policy that has been followed by ITV. You said in your speech in Cardiff last year that you wanted to emphasise the role that ITV plays in national broadcasting and to reflect all of Britain back to itself. You are the executive chairman of ITV, so what are you going to do to make that statement a reality?

[88] **Mr Grade:** I would throw the question back to the creatives in Wales and ask them what they are going to do about it. I would throw the question back to them and say that if they believe that that is true—‘they’ being the wonderful writers that there are in Wales, some of whom are still in Wales, some of whom are not and some of whom have not even tried television yet—if they have a story that they are burning to tell, which reflects Wales, they should come to tell us about it. It is for them; it is not for me. We are not social or cultural engineers; we are a business looking to get the best programmes from wherever we can.

[89] **Alun Davies:** I think that you are right on that, actually. I am not a great fan of quotas

and I think that it is the responsibility of ITV to seek the best programming from wherever it may come, but you have said that it is an objective of your policy as a broadcaster to reflect the whole of Britain back to itself. You have an important place as the channel 3 broadcaster and you are gifted the spectrum space to do that. It appears to me that you are saying, 'We have these objectives, but we are not really going to do anything; we are just going to sit back, have lunch, and see if anybody comes to see us this afternoon'.

[90] **Mr Grade:** I perhaps look at the problem in another way. The centre of gravity of the creative industries, as far as the media are concerned, is London—we are talking about a big metropolitan place where people come to make their way in the creative industries, whether in the movie business, the television business or another—and it would be a sad day if ITV reflected only metropolitan London life to the rest of Britain. I think that we go further than anybody in reflecting non-metropolitan life to UK viewers. The fact is, at the moment, that we are a bit short on reflecting Welsh life on the screen, for the reasons that I have explained. However, in terms of the range of programming, I think that we go a long way. I do not think that you could ever look at ITV and say that it was representing just a metropolitan view of the world. Our roots are as much outside London as they are in London and I think that we do reflect that.

[91] **Alun Davies:** I think that that is very fair and that was certainly a very good comparison between ITV and the BBC in that sense.

[92] **Mr Grade:** I did not mention—

[93] **Alun Davies:** You did not need to; I think that we picked that up. Mr Grade, I do not disagree with many of the points that you have made this afternoon, but are there possibly problems within the internal architecture of ITV? You have mentioned the *History of Mr Polly*, which was made by ITV Productions; *Mine All Mine* was also an ITV production, as was last year's *The Aberfan Disaster*; however, these have been ITV productions, rather than ITV Wales productions. I think that I am right in understanding that ITV Wales is actually located—looking at you Elis—in the ITV News structure, rather than in ITV Productions. Is it possibly the case that you are not investing in production, for example, of drama in Wales? You do it for S4C and produce some fabulous drama in Welsh, but is it the case that you are not maximising the skills, the talent and the infrastructure that you have created there to create drama for the rest of the network, and in the English language?

[94] **Mr Grade:** I think that the day has gone when ITV can afford to have multiple production bases, with development executives, heads of drama and heads of entertainment replicated all around the UK. Money is incredibly tight at the moment. The returns earned by ITV1 as compared with its European peers are very poor. We have a lot to do to repair our business. I cannot see us setting up production centres that replicate what we have in Manchester or Leeds, but for the most part in London; I cannot see us doing that. Would I like to? I would love to, but the BBC is best placed to do that and is very committed to doing it. When I was chairman of the BBC, I was delighted to see the commitment of the director general and his team to moving more and more money and production out of London. That was in the best interests of the BBC and its viewers. It is its job to do that. My job is to run a business, to get a return for my shareholders, keep my advertisers happy and delight my viewers.

[95] **Alun Davies:** In doing so, do you appreciate that some of your viewers feel a little short-changed? We hear promises from all broadcasters, not only ITV, and we hear you making speeches about wanting to be a UK-wide broadcaster and that you want to reflect the best of British. We hear these speeches—I am sure that there is a central speechwriter somewhere in the broadcast industry who produces them—but then we see the reality, which is, as you said, that there is virtually not a minute of portrayal of Wales on the network. There

has not been a single commission, as I understand it, in the last two years. So, we hear the rhetoric, and then there is the reality.

[96] **Mr Grade:** There is absolutely nothing on our end that stops it. There is no prejudice or barrier to entry. We are proactive; we treat all production communities throughout the UK equally in terms of giving them an equal share of information, that is important, and intelligence about what we are looking for and what we need. It is one-way traffic, to be honest, at the moment. I do not know what more we could do, short of using quotas, which, for the reasons I gave earlier, are ruled out, or short of investing money that we do not have, which is not an option. We have to rely on the initiative and the dedication and obsession of the creatives to deliver us what we need.

[97] **Alun Davies:** I do not like quotas, but can you appreciate, from a public policy point of view, that we hear broadcasters making speeches and writing marvellous submissions saying wonderful things, but that, at the end of the day, we do not see a moment of that reflected on our television screens day in, day out, week in, week out and year in, year out? Are we at fault? Is Wales really such an unimaginative nation and lacking in ideas? I am not convinced that we are generically, almost, producing fewer ideas than anyone else. There must be something in the ITV mode of operation that is preventing this. I am not suggesting for one moment that it is intentional, but I suggest that ITV has possibly mislaid Wales.

[98] **Mr Grade:** The evidence clearly suggests that there is a disconnect between the Welsh creative community and ITV as a broadcaster. There is a disconnect, but what is the reason for that? Obviously, in preparation for this discussion today, which is clearly important, we have done our internal research about our systems and whether we are treating Wales fairly as opposed to other parts of the UK in terms of the flow of information, the time that we give producers and other initiatives that we have. If I thought that we were wrong, I would have no problem in saying to you, 'Look, we have got this wrong, and we have to fix it'. However, that is not the case.

2.30 p.m.

[99] Creativity is not a tap that you turn on and off. For example, if a brilliant Welsh production company—and there are several—came to us and said, 'We have this fantastic idea', and we loved the idea, but the idea is about a family on the Isle of Wight, do I turn it down because it is not about Wales? That may be what it wants to make; you cannot force-feed these things. Shakespeare did not walk up and down the queue at the Globe, asking the people in the queue, 'What do you fancy tonight, boys and girls? Do you want a mad Danish prince, or do you want a teenage love tryst? What do you fancy?'. What came into his head was what he wrote; sometimes he wrote *A Midsummer Night's Dream*, about a bunch of fairies in the glade, and at other times he wrote about the wars of the roses—that is how it is.

[100] **Alun Davies:** Let us accept that there is that disconnect at present, and that ITV will work to overcome any disconnect that exists. I do not want to overly extend this session, but could you talk to us about your vision for ITV Local in Wales?

[101] **Mr Grade:** ITV Local is one of the more exciting online projects that we have developed over the last year. It is exciting because it does two things—it matches a serious business opportunity with a public service. People have a rosy notion—I am talking about the English regions here—about regional broadcasting; it is a clunky system, driven by an analogue transmitter map. If you try to do local programmes in London alone, the people of Watford have nothing in common with the people of Croydon; as far as they are concerned, Croydon is terra incognita, and vice versa. There is an imperfect footprint of regional programming—it is better than nothing, but it is unsatisfactory; 'I never see my town on your news programmes' is a comment that you more often than not get at public meetings.

[102] Broadband delivery is fantastic, because you can get down to individual wards on the election map, and you can get to postcodes, so you can do news that is specifically targeted locally. At the same time, it is a wonderful new opportunity for advertising, moving out of local newspapers, or as an addition to local newspapers, to display classified advertisements and video advertisements at a local level. It will be a satisfying experience for people with broadband. So, we have the news machine; we are delivering local news—not regional news; that is very different—throughout the UK. We have great hopes for that as a successful business going forward.

[103] **Alun Davies:** Do you see that operating on a regional basis in Wales?

[104] **Mr Owen:** It already does that, in sub-regions within Wales. We have our national news programme, and we go to sub-regions in Wales, and that is growing.

[105] **Mr Grade:** Can we put the URL in the Record?

[106] **Alun Davies:** Yes, you can—I am sure that it will be well used.

[107] **Mr Grade:** It is www.itvlocal.com/wales.

[108] **Alun Davies:** On the full impact of digital switchover on ITV, we discussed at the beginning of this session the short term, between now and digital switchover, and we agreed that, in relation to audience behaviour, the switchover has largely happened. In the long term, I understand that you have made requests to Ofcom, to which Ofcom has agreed, that you will reduce non-news broadcasting per week in Wales to three hours as of next year. How do you see the longer term developing?

[109] **Mr Grade:** That is being debated now. Somewhere among Ofcom's three options—is it three or four?

[110] **Mr Jerney:** It is four.

[111] **Alun Davies:** There are only two, but carry on the fiction. [*Laughter.*]

[112] **Mr Grade:** There are four options, and the debate that that will stimulate will, hopefully, lead to a solution to all these problems. Every single bit of it is interconnected. Channel 4's prospective problems, ITV's challenged business model, the BBC's role going forward, and channel Five are all part of the whole, and the nation must decide what broadcasting it wants going forward, that is, what it wants to be guaranteed and what it is prepared to leave to the market. Those two things used to be the same, but they are no longer.

[113] **Alun Davies:** I do not know whether it is possible to look as far ahead as post 2012, but you are on record as saying that we need to move to a sustainable system now or ITV simply will not be able to respond to future economic pressures. You rejected my description of this as a potential crisis earlier, but, if I were a shareholder listening to that, I would be running to the bank.

[114] **Mr Grade:** Good luck with the banks at the moment. [*Laughter.*] Last September, after a six-month trawl around the markets in which we operate and around our business and skills, I came up with and launched what is colloquially known as ITV's 'turnaround plan', which is a three to five-year plan to invest hugely in original British content and to monetise that content online, through international exploitation and so on. That is our plan. To keep this business together as a broadcasting and production business, I have to be able to maximise my investment in UK network production. I cannot be in the position of having to cut the

network investment in UK production to fund things that lose money. Those days are over. Therefore, I have got to be free to do that. If I am free to do that, there will be a fantastic future for ITV, its advertisers, shareholders and viewers. My shareholders are very supportive, but we require a satisfactory and successful outcome to Ofcom's present review of public service broadcasting—and the Government's, given that the Department for Media, Culture and Sport is doing its own review—for the public and for the business.

[115] **Alun Davies:** As I have said, I do not want to extend this session, but I am interested that you talk about profitability in that way. When you speak of loss-making programmes, I presume that you mean regional programming by that.

[116] **Mr Grade:** It is not necessarily just regional programming; it is a well known fact that we had to drop children's programming from the ITV1 schedule for commercial reasons.

[117] **Alun Davies:** Earlier, you quoted the figure of £9 million for regional programming costs for Wales. I assume that ITV Wales has costs above that sum. Ofcom has given us a figure of £4.30 a head, which takes the total cost over—

[118] **Mr Jerney:** That is the cost of operating in Wales, and includes the infrastructure as well as the programming.

[119] **Alun Davies:** I assume that you also derive advertising revenue from Wales. I do understand that commercial confidentiality issues surround this debate and discussion, but I would be pretty surprised if that revenue were less than £30 million. Even with the pressures from switchover, which you have accepted are generally in the past now, there is considerable scope to maintain a profitable operation in Wales with the current range of regional programming, if the management is there to maintain it.

[120] **Mr Grade:** I am not confirming that figure; it is a price-sensitive piece of information that we do not disclose. However, let it be a safe assumption that the revenue is greater than the investment. That revenue reflects our investment in the network programme budget; it does not reflect the investment in programmes for Wales.

[121] **Alun Davies:** However, it reflects the fact that Wales is a substantial net contributor to ITV's profits but is not reflected on the network or in commissions, and, in future, it will not even be reflected in the country itself.

2.40 p.m.

[122] **Mr Grade:** I am afraid that that is not the case, Chair. As I recall from the recent Ofcom document, the Welsh licence goes negative and so becomes a negative liability from 2009, using Ofcom's mathematics. I think that it is a few years late in that calculation.

[123] **Alun Davies:** I accept your view on that. However, given the income that you derive from advertising from Wales, and given what virtually amounts to not a minute's portrayal of Wales on the network, no commissions for independent productions in Wales, and a reduction in regional programming, taking all that together, it remains difficult to avoid the conclusion that ITV wants to take from Wales but it is not prepared to give anything back.

[124] **Mr Grade:** That is a perfectly fair political calculation, but, in economic terms, it does not stack up. If you had to run our business on that basis, you would be in serious trouble.

[125] **Alun Davies:** Throughout this session and in previous speeches and contributions, you have been warning constantly about the difficulties facing ITV over the coming years. It

is difficult to avoid the conclusion that you are moving towards Sky One. Are you?

[126] **Mr Grade:** Sky One makes a very minimal contribution to the UK's creative economy. Sky One is a channel of imports and reruns, and there is very little original programming that is particularly noteworthy of its scale. It pays £1 million an hour for American material. We do not pay anything like that and we would not. I would rather make an hour and a half of UK drama than do that, to be frank, because that is what we do.

[127] **Alun Davies:** We all hope that you will continue to do that and continue to succeed in the future. Thank you very much for your time and your evidence this afternoon. We very much appreciate it. A transcript of today's session will be sent to you and you will have an opportunity to review that.

[128] Diolch yn fawr i chi am eich hamser. Thank you very much for your time.

[129] **Mr Grade:** Thank you.

2.42 p.m.

Tystiolaeth ar gyfer Ymchwiliad y Pwyllgor: Channel 4 Evidence for Committee Inquiry: Channel 4

[130] **Alun Davies:** Gwahoddaf gynrychiolwyr Channel 4 i'r bwrdd yn awr. Diolch i chi am ymuno gyda ni y prynhawn yma. Fel y byddwch wedi'i glywed, yr ydym yn cymryd tystiolaeth ar gyfer ein ymchwiliad i deledu cyhoeddus yng Nghymru yn y dyfodol. Yr ydym wedi cael copi o'ch papur chi, a gwerthfawrogn hynny yn fawr. Yr ydym i gyd wedi cael y cyfle i ddarllen drwy'r papur, ond hoffwn ddechrau'r sesiwn y prynhawn yma drwy ofyn i chi gyflwyno'ch hunain, a gwneud unrhyw sylwadau sydd gennych am y themâu sy'n codi yn eich papur.

Alun Davies: I now invite the representatives of Channel 4 to the table. Thank you for joining us this afternoon. As you will have heard, we are taking evidence for our inquiry into public service broadcasting in Wales in the future. We have received a copy of your paper, and we appreciate that very much. We have all had an opportunity to read through your paper, but I would like to begin this afternoon's session by asking you to introduce yourselves, and to make any comments that you may have about the themes that arise in your paper.

[131] **Mr Duncan:** My name is Andy Duncan, chief executive of Channel 4.

[132] **Mr Cosgrove:** I am Stuart Cosgrove, director of nations and regions at Channel 4, overseeing our production and strategy outside London.

[133] **Mr Toon:** I am Nick Toon, director of corporate relations at Channel 4.

[134] **Mr Duncan:** I will make just a few introductory remarks, most of which are in the paper, but they are the headline themes and issues that might be helpful to discuss today.

[135] The historic relationship between Channel 4 and S4C in Wales, under the old analogue system, was unique. Some real successes came out of that, but, as we move towards a digital age—and clearly a number of homes in the UK and in Wales have already gone digital—it is timely to be talking about how that relationship might evolve in future. We have included a number of points in the paper about the opportunities that we see to do more, as we go forward. They include some original production in Wales, and there are potentially some very interesting ideas in digital media, not least the potential room for partnership with S4C in a way that was not possible, historically. We come here today off the back of having launched

‘Next on 4’, which is the result of the big-vision process that we have been through as Channel 4, laying out what we think our role should be in the digital age. We have put forward some key purposes, and we see some interesting opportunities ahead over the next few years, so I think that this is quite a timely discussion.

[136] **Alun Davies:** Thank you very much, and thank you for being here this afternoon. It is fair to say that there has been an interesting relationship between Wales and Channel 4 over the past few years, but is it fair to say that Channel 4 has seen itself as mainly a Scotland, England and Northern Ireland broadcaster, rather than a UK broadcaster?

[137] **Mr Duncan:** No, I do not think that that is fair. Clearly, there has been a special relationship with S4C for the provision of programmes and so on, but, essentially, most of the programming that we produce for the UK has made its way through to the Welsh audience as much as it has to the rest of the UK, as well as what S4C has done directly. Some of the issues that we find ourselves facing today in Wales are very similar to the ones that we are facing in Scotland and Northern Ireland. We have made the general point in ‘Next on 4’ that our track record outside London, relative to some of the other UK-wide broadcasters, is good as far as the English regions are concerned. For example, we do very well in areas like drama in the north west of England. However, we believe that there is room to do better in all of the nations.

[138] I noticed, in some of the previous evidence given to the committee, that there was a sense that Wales was somehow being treated differently. I do not think that it is, although some of the structural issues that we face here are similar to those that we face in Scotland and Northern Ireland, such as the strength of the local independent production sector for English-language programming. I think that the commitments that we have made in the ‘Next on 4’ document and the opportunities that we see in the digital world are ones that apply to Scotland, Wales and Northern Ireland, although there are different issues in each case, so it is not a matter of one size fits all. I think that there are quite specific and very different circumstances in each of those nations, but I would say that the broad thrust of the opportunities is the same for all three.

[139] **Alun Davies:** Channel 4 has commissioned about 1 per cent, I think, of its programming from Wales over the past 10 years. If you say that you are proactively seeking to commission programmes in Wales, the conclusion must be that you are not very successful.

[140] **Mr Cosgrove:** I will pick up on that, Alun. I think that it is probably worth unpacking that story. Let us put aside for a moment the structural connection between S4C and Channel 4, because I think that we know how the value of programmes works in that way. I think that that is an important caveat to make in the debate. I think that there have been disproportionate challenges for Channel 4 and the independent sector in Wales that are probably worth looking at. One thing that I admire in S4C is that, two or three years back, or perhaps slightly before then, the management looked at the production sector that was available for it to work with and it felt that, in many cases, it was too disparate, too disaggregated and too small, and so it began an organisational strategy to work with a smaller number of more capable providers—and, by that, I do not mean capable in creativity terms but in terms of scale and economic development. I think that it moved forward in a way that was quite enlightened for a small broadcaster that faced many different kinds of challenges.

[141] The problem came about because—and there is a piece of evidence in previous research that was undertaken in Wales to show this—the production community in Wales often faced the challenge of seeing the local programming market as being much more beneficial than having to fight the fight of raising network commissions. I think that that has been true, with the exception of one or two significant companies that stand out from that. Channel 4, to some extent, has actually been disadvantaged because of that particular

situation. You would be surprised how few ideas we actually get from Wales for English-language programming. You would be surprised by how few producers actually connect with our mainstream way of going about things, such as the networking activity or our online commissioning system and so on. Put simply, the level of ideas that comes from Wales is very low indeed. That said, I would not want to give the impression that Channel 4 was in any way perfect in the way in which it goes about its business.

2.50 p.m.

[142] Picking up on Andy's theme, I do not think that we have done enough historically in Wales, and it is perhaps the case that there have been misperceptions in the minds of our commissioning editors about our status in Wales and whether we broadcast here or not. Unless you are finely attuned to the way that broadcasting works, it can be confusing for people. That has definitely been a flaw, both in our internal systems and in the structural systems in Wales.

[143] One thing that Wales has been able to do, which is not true of the other nations of the UK, is to build up small independent production companies of considerable scale. The best examples are, of course, Tinopolis and Boomerang—companies that are unique among the nations, if you leave the English regions out of the picture for the moment. Uniquely, these companies have been able to build up quite significant capacity, with both of them listed on the public markets. Tinopolis was taken over just the other day by a venture capital company, but nonetheless, it is a Welsh-owned company. That is the only time that a company from outside London has bucked the trend of consolidation and assertively targeted English companies to take over. Boomerang, which I know very well, has been adept at building its business and going on to the alternative investment market, and so on. That differentiates Wales from Scotland and Northern Ireland and so on. One rationale for that might be that S4C has acted as a strong protective mechanism, allowing those companies to aggregate and grow, and that has been to the benefit of the Welsh creative economy.

[144] However, it is also fair to say, if you get into the more granular detail of the nature of that economy, that there is a difference between economic value and cultural and creative representation. I read a report earlier in which someone confused those two related but utterly distinct elements. I would like to get deeper into that, because those two issues are quite different. If you take economic development, companies such as Boomerang and Presentable, another Welsh-based company, have probably been among the first and fastest to move into the advertising-supported model of programme-making. Boomerang makes *Extreme Sports* for us on Saturday mornings, and Presentable has built a significant business around poker, which has been funded by advertising. That was one of the reasons why it was attractive to the RDF Group, which took over the company. Therefore, you should not imagine that this area of programming is somehow cheaper, contaminated, or less important—in terms of economic development, it is one of the growing areas of our business, it is hugely commercially competitive, and it is an area where two Welsh companies have been early adopters. So, rather than seeing this in a negative way, if you were to look at the full value of those programmes, including the commercially funded element, Channel 4's performance in Wales could be seen to be significantly higher. I do not think for a second that *Extreme Sports* or poker necessarily addresses the cultural and creative representation issues, but, in terms of economic development, it is a strong place for small Welsh companies to be. So, it is a complicated story rather than a simple one, and, as you know, we do not have anywhere else to go—it is independent production for us, and nothing else.

[145] **Alun Davies:** Thank you for that; that is very helpful.

[146] **Paul Davies:** Bearing in mind that you have commissioned no more than 1 per cent of your programming from Wales each year for the past 10 years, could you explain what you

mean in the document by Channel 4 being:

[147] ‘committed to ensuring that our core objectives are achieved across the whole of the UK, including Wales,’

[148] and

[149] ‘increasing the proportion of our programme budget spent on the nations by more than 50% by 2012’?

[150] **Mr Duncan:** Going back to what I said earlier, we feel that the headline level of investment has not been high enough in all of the nations, and we want to see that increase substantially. If you take the situation in Wales, as Stuart has just said, it is not just about our investment through our advertising income; we have also had quite a substantial amount of investment in Wales excluded from that figure because of factors like advertisement-funded programming, where the funding goes straight to the producer. So, the way that we would make that calculation would be to look both at our own, direct investment and any other commercial investment that we can attract into the programming.

[151] Secondly, there is the structural issue, which is something that we wanted to have an opportunity to discuss this afternoon, that in order for us to achieve that, and, hopefully, to substantially exceed that, the key issue for us, because we do not have any in-house production and are therefore 100 per cent reliant on the independent production sector, would be the growing capability of Welsh companies to produce returning series in the English language, particularly in drama and, to a lesser extent, entertainment. So, what we are missing here in Wales, and arguably in Scotland and Northern Ireland, is the ability to commission some sort of returning series. One of the other important announcements made in ‘Next on 4’ was the establishment of a pilot fund, specifically with that in mind, and we are actively looking for ideas as we speak to pilot drama and entertainment ideas. This fund is very much open to Welsh production companies to try to get some returning drama and entertainment hits. Linked to that is that we also think that it is important that the BBC does more in Wales outside of its own walled garden, because one mistake made in the last charter, in my view, is that, while there was a change to the quota around how much the BBC had to do in-house versus from the independent sector, it was never cross-collated with the nations and regions quotas. It is possible for it to do much more in other nations, within the BBC. We are not saying that it is all down to the BBC, but, to some extent, our ability to drive forward in a powerful way will be influenced not just by what we can invest ourselves, but by what other broadcasters, most notably the BBC, can do. An example from when I was on the board was *Doctor Who*, which was very good in one sense, but has probably done less to help build wider drama development capability available to other broadcasters, then had that been put with a Welsh independent company.

[152] **Paul Davies:** You mentioned the pilot fund of £1 million. How will you ensure that Wales benefits from that fund?

[153] **Mr Cosgrove:** The most obvious way of looking at that is that the fund is new and that it is new money into the programming budget from our own reserve, so, in that sense, it is new investment. The only way that the money can be spent is via the director of programmes committing to an idea that comes from a commissioning editor via an independent producer, which will, through factual entertainment, drama and entertainment, as Andy suggested, be something that could move into series development.

[154] We have not broken the £1 million down into specific amounts for Scotland, for Ireland and for Wales, but we would be disappointed if companies—and I am not necessarily using them, but I mention them because they have the capacity to do series—such as

Boomerang, Presentable, Green Bay Media and others were not the beneficiaries of that. The reason why I say that, Paul, is that another part of the granular analysis of the independent sector that it is important to bear in mind is that the smaller a company is in terms of scale, the more likely it is to produce single films—usually single films within the factual genres, such as news and current affairs, single documentaries, or whatever. While they are an important part of the ecology of broadcasting in Wales and elsewhere in the UK, if truth be told, if we are talking about ramping up capacity in making our figures seem better in the future than they have been in the past, we have to look at series-based commissions. That, therefore, takes us towards those companies that have the scale and the capacity that can deal with the kind of challenges that come from that. They are relatively small in number outside of London, generally, but there is certainly a smaller number in Wales. That would be the biggest priority.

[155] The priorities would probably focus on areas such as the 10 p.m. drama slot, daytime slots and our 8 p.m. leisure and lifestyle slots. So some of them are to do with the responsibility of a small core group of key editors, which then makes the management of that easier to try to achieve. It is not simple, and we will certainly not be handing out money for things that are unlikely to meet the thresholds of quality and diversity and all of those other values, but we would have high hopes that Welsh companies would be among the beneficiaries of that fund, precisely because that is an area where we are weak. We could be sitting down here with 35 per cent of our production outside of London, which would be very successful in terms of the nations and regions targets, but, if you strip away the English regions, you begin to focus on weakness and the weaknesses in the three smaller nations, including Scotland.

3.00 p.m.

[156] **Peter Black:** On this 1 per cent figure, I accept the very thorough explanation of what is happening in Wales. In a sense, S4C has built up a model of how to build capacity within the independent sector in Wales. I am interested in why Channel 4 has not followed suit, given the commitment that you have to the independent sector and to getting coverage across the whole of the UK. Why have you not taken up that model and tried to build capacity among independent producers in Wales?

[157] **Mr Cosgrove:** You ask a good question. The answer is simply that S4C inherited with its new chief executive officer, Iona, a challenge, which was how to address the future of supply in S4C and it made two decisions that have proven, historically, to be right. It was painful—let us not pretend otherwise. S4C decided to reduce the 74 contracts that were on its books at the point when Iona took over to five or six key core suppliers, if you like, and that has been a painful journey, particularly for those single documentary film makers who were making perhaps one film every two or three years for S4C.

[158] The second thing that she did that had real traction was that she identified a higher value of development spend—up to £250,000 per company—that she could afford to invest in this small group of companies. That has proven to be true. So, there is a lot that Channel 4 could learn from S4C. However, the organisations are not similar in the sense that S4C has a considerably smaller operational base and it has to balance the needs of a single, small nation, namely Wales, whereas perhaps what we have been doing is to try to balance the range of complexities across the whole of the UK. So, to take areas outside of London as an example—and we are in a situation that not everybody necessarily loves—if you were to compare our spend in Cardiff, for example, with that in comparable cities across the UK, such as Nottingham, Leicester, or Norwich, you would find that the money that we spend in Cardiff outstrips that in those other cities, where we do not have any spend at all. So, when you compare like with like in that sense, it becomes a slightly different story. We are having to balance a whole load of things. I am saying this in the context of knowing that our

performance in Wales is not what we would want it to be—I would go further and say that it is quite poor, but the truth of the matter is that Channel 4 does not have a whole load of options.

[159] I will give you one small example of that. The other night we launched with other broadcasters the talent attraction scheme, which is an initiative that Wales has been pioneering. The reason why this scheme exists is that it has been identified by a whole range of different stakeholders in Wales that, for us to have the kind of growth that Paul suggested, we may need to look at those key areas of the executive producer level and series producer level and, if companies are going to be able to attract talent from either the over-inflated London market or elsewhere—perhaps Bristol or a broadcaster in Wales—they are going to need significant investment. Therefore, we, along with our partners, have committed to an investment of over £100,000 per investment to have a talent attraction scheme. We launched that initiative the other night. Interestingly, at the launch, I met a Cardiff-based producer from a company called Wild Dream Films. I say that he is a Cardiff-based producer, but he married and moved to Brighton. During the six years that he was in Brighton, he produced two or three documentaries for us, and prior to that, he produced a fantastic documentary called *In Search of the Amber Room* from Cardiff. I am not in a position to tell him where to fall in love, and the independent sector is very mobile and transient. Even in the period between our preparing our paperwork and coming here, things have changed. We talk in the paper about Tinopolis being a Welsh-owned company and, two days later, that is not true. Channel 4 cannot always control that. It can put better structures in place and it can be clearer about its opportunities.

[160] We have looked at people taking on core responsibilities for certain genres, but in the final analysis we cannot instruct production companies to move into a genre that they do not want to work in or whatever. So, there are quite significant challenges in that regard. On whether I would like to see growth in the sector, yes, I would love there to be an independent drama-producing company in Wales of considerable scale, and I would also like there to be someone who had fallen in love with the modern concepts of format entertainment programmes in Wales. Currently, we do not have that guaranteed, and therefore commissioning in those genres, which are high-value genres, proves to be quite hard for us to do.

[161] **Peter Black:** Does the existence of S4C effectively mean that, in many respects, you feel that you have been let off the hook in Wales?

[162] **Mr Cosgrove:** I would not have thought so, to be honest—it is not how it feels. I can see why you might say that, but not if you were to analyse it. We have very strong friendships with S4C so there is no doubt that S4C, for its reasons, has been able to be very strong in two genres that we are perhaps less strong in—multi-camera music programming and even animation, to some extent, where the language can be dubbed and sold overseas, or whatever. S4C has some key strengths there. So, I do not think that we have been let off the hook, because if we were using the grammar of the previous chief executive, Michael Grade, and it was merely market forces that determined it, Channel 4 has been in a position where it has not been able to seek value from advertising in Wales or work out a statutory relationship with S4C where programmes are given free of charge and so on. That is not true in Scotland and Northern Ireland, where we are also underperforming. So, it does not feel as though we have been let off the hook in Wales.

[163] **Mr Duncan:** I have been in Channel 4 for the past four years, and Wales has never been treated differently because of the existence of S4C in any discussions of which I have been part. Perhaps, 20 or so years ago when Channel 4 was first established that attitude was somehow there in the ether. The point that Stuart made earlier is very significant—part of where we are today is reflected in the fact that, for many Welsh companies, it is more

immediately attractive for them to focus on S4C and what S4C might spend its money on. The possibility of a network commission from London or wherever else it might be has not been the major focus, so Stuart's earlier point is very important. At least part of the reason why we have the present situation is that there is not a flow of ideas coming through. As I said at the very beginning, we see that, with the clarity of moving towards digital with S4C focusing much more on the Welsh language side, the old programme arrangement between Channel 4 and S4C will change. We see a very big opportunity for that historic situation to change, and we are willing to play our part in that. It is very difficult for us by ourselves to change it, particularly at the moment as we are facing quite significant financial difficulties, but the suggestion that Wales has been treated differently has certainly not been true for the past few years.

[164] **Mr Cosgrove:** Peter, just to re-emphasise this, the issue in this regard is not one of quality but of scale. Production companies such as Green Bay Media or Indus Films are network-capable and internationally competitive companies of high quality, so the issue is not one of quality but of scale. Those companies, however good they are, are in the single factual genre—they are not in areas such as returning drama or whatever. Those companies are diversifying and they have business plans going forward to diversify even further, but that is where we are. So, the issue is not about quality—it is about scale.

[165] **Peter Black:** To what extent have you collaborated with S4C to try to redress that balance by making use of the work that it has done in Wales on developing independent companies—to piggyback or take advantage of that to try to get more network programmes out of that relationship?

[166] **Mr Duncan:** There are two good examples of that. Historically, the level of discussion and partnership has perhaps not been as strong as it could have been but, off the back of our more recent discussions, we are in live conversation with S4C as we speak. Nick is going to be meeting with some key people from S4C this evening, and it is a live conversation to ask what sort of different partnerships we should have going forward to the one we had historically. Part of what we can and should be discussing is possible collaboration around the development of key companies, so it seems that, although the output might be in a different language, there is still the same kind of capability around drama and entertainment. As I said earlier, between us, the BBC and S4C in particular, it may be possible to get a critical mass on investing in certain key companies to try to build up that capability.

3.10 p.m.

[167] The other area on which we have not yet had any detailed discussions with S4C, but where I can see some real possibilities going forward, is, as part of our transition into the digital world, we are setting up a major pilot fund for innovation for public purpose projects on the web—the Four Innovation for the Public Fund, or 4IP. We will be running that fund for between two and three years, and we anticipate a total investment of some £50 million. Channel 4 will be putting in roughly half that sum, with the remaining half coming from a number of creative cities and other areas of the UK. A number of places in the UK have signed up to be a partner on that. As yet, we have not had a positive reply from Wales, but we would love there to be the same situation in Wales. In that case, there could be some really interesting opportunities with S4C as it looks to develop more digital content, particularly content that might be suitable for online use. Massive synergy might exist there. Certainly, in the next six to 12 months, we would hope that that would be another big area of partnership.

[168] **Mr Cosgrove:** In the earliest conversations with Iona, and certainly in the conversations that I have had with her, for example, with regard to this area of 4IP and web-enhanced media, she has talked about opportunities to have Welsh-language sub-sites of those

various things that we are doing on a different scale. We would look for those opportunities to emerge as we go forward.

[169] **Mr Toon:** I would just like to pick up on your point about replicating the S4C model and consolidation. Channel 4 is tasked with delivering a number of different public policy objectives, one of which is talent development and providing opportunities for those people who do not make it through the BBC and ITV. So, in a sense, you have two competing tensions there. The consolidation of the sector has been very good for creating companies that have scale and can make those kinds of programmes. At the same time, Channel 4 works with over 300 independent companies a year, and it is very proud of doing that. There is also a lot of pressure coming from the smaller independent sector and from the Government more broadly for us to allow people minimum barriers of entry all across the UK. Those two things are slightly in tension. Were we simply to say that we only want to work with five or six big, scalable companies, one in Cardiff, one in Glasgow, and so on, it would cut directly across Channel 4's broader public purpose of opening up opportunity for as many people as possible.

[170] **Peter Black:** I was thinking in terms of the smaller scale and identifying where you have a paucity of commissioning, such as in Wales, and asking, 'How can we address that in this particular area, as opposed to on a UK level?'. I think that your point is taken, however.

[171] **Nerys Evans:** Thank you for your evidence. I would like to ask you about quotas. Your licence requires that 30 per cent of volume and spend goes to the nations and regions. What are your opinions on developing quotas outside England, and specifically for the nations?

[172] **Mr Cosgrove:** We have always adopted the policy that we as a broadcaster do not want to be placed in an uncreative, algebraic situation in which we are boxed into a corner and unable to commission the best content. However, the setting up of the pilot fund is worth unpacking—when I do *Mastermind* this will be my specialist subject. If you look back, you will see that Channel 4 has always tried to be ahead of where policy is on these subjects. I do not think that we have always delivered, but we have certainly sought to be ahead. We were the first company to set up dedicated funds for regional development; we were the first to ring-fence parts of the schedule that could only be pitched for by companies from outside London; and, as we have just explained, we have announced this commitment to a nations fund. So, through our own efforts, we are beginning to chisel down to what for us is clearly and self-evidently a challenge and a problem, which is that our nations and regions work has been a huge success—35 per cent of value. However, within that, when you take the English regions out of it, particularly the north-west and the south-west of England, and the city regions of Bristol and Manchester, you begin to expose some poverty of performance in the nations. Then, when you start to look at those nations, you see that each of them has very different story to tell. So, although we have not supported, as it were, a further round of quotas, we have certainly put management targets and enforcing mechanisms in place to try to address the problem.

[173] **Nerys Evans:** You mention in your paper that you are in discussions to move the digital hub of 4Sports to Swansea. Can you give us an update on that?

[174] **Mr Cosgrove:** Yes, okay. We are on the record, are we not? I had a meeting with the Welsh European Funding Office on Thursday, which did not go particularly well. The conversation felt less collegiate than I hoped that it would be. Hopefully, that was not because Channel 4 was not willing; in fact, we are hugely committed to trying to move this project forward. Subsequently, I have had conversations with politicians in Wales who have said that, for various reasons, I was knocking on the wrong doors in terms of the structural partnership that we would be looking for. However, on what the aspirations are—Andy can give you a perspective on this—we think that there is probably an opportunity in Swansea to build on the

relationship that we have built up with Boomerang over the years. Boomerang is already a joint venture owner of the freesports hub, in which its expertise is in snowboarding, skateboarding, surfing and all of the extreme sports. It has been a big supplier for our Saturday morning schedule, albeit within the funded model, working with clients such as Red Bull and Billabong and some of the younger brands. We think that there is an opportunity to work with Boomerang to build what we have called a digital media academy in Swansea. The idea is that we could enrich the television experience by building a portal that would be a 4Sports portal, but where young people could train in a dedicated, real, industrial-experience way to be video journalists, web editors and a whole load of other things, mentored and supported by the Channel 4 brand and by Boomerang. There are easier things that the company could do to make money than that, but it is something that it is committed to doing. All that we really need to do is to find the right kind of partnership to make it happen. I am confident that we can convince people that that will be the case. Clearly, the European regional development fund route that we were going down may have been the wrong one, but I need to work back and work out whether there are other ways of achieving this in Wales.

[175] **Mr Duncan:** To look at the bigger picture on this, we made the announcement about the pilot fund about six weeks ago and we are hoping to launch formally around the end of June or early July. The key thought behind that—and we are absolutely of this view—is that, as well as public service objectives being delivered through traditional television programmes, there are other sorts of projects on the web, and I do not just mean television spin-offs but projects specifically developed for the web that can have a real public purpose and which will not necessarily be delivered by the commercial marketplace. Sport is quite a good example, as we think that minority sports coverage is quite interesting. There is one around news, connecting with younger audiences, and there is one about using computer games for public purposes.

[176] We are at the early stage and some of these ideas are flowing around, but the way that we have designed this is very specific. While we want to build on the infrastructure of Channel 4—in terms of back-office costs, brand and marketing synergies—we want this to be very much a UK-wide fund where ideas can be produced by anyone across the whole of the UK and taken across the whole of the UK. We have had a very positive response. The first city that we announced was Birmingham, but we expect there to be at least one more major city in England. Without giving too much away, I think that Belfast and Glasgow will definitely be cities that will be signed up. From our point of view, we would very much like to have Wales as part of this and, I guess, being very blunt about it, we would like to have Wales as part of it for when we launch in late June. It has been quite interesting that everywhere we have gone, there has been a really positive reaction and a sort of hunger to get involved.

[177] The other big benefit to any of the cities that have got involved is that, as well as being part of testing this fund in terms of its public purpose, most of them are very interested in the benefits for the local digital infrastructure. Although this is not on the same scale yet, it will be similar to the 1982 formation of Channel 4 and S4C, which gave a huge boost to the local creative economy with production companies and so on. Again, all the cities that have signed up so far also see that as a very big benefit. I would have thought, for your committee as a whole, given what you are looking at, that this would be quite an interesting area. As Stuart said, there is already some real expertise in Wales and we would love you to be part of that scheme in some way, shape or form. I think that we are reasonably optimistic that it may yet still be achievable.

[178] **Mr Cosgrove:** Yes, I am not easily put off.

[179] **Mr Duncan:** It has hit more problems at this stage than we would have expected.

[180] **Mr Cosgrove:** Basically, the concept of the fund is that Channel 4 has invested £20 million and we are looking for a range of cornerstone partners. I think that the fund is unique in as much as it is very aware of the needs of different economic development agencies and digital development agencies, in both nations and cities, to try to build up the next generation of talent.

3.20 p.m.

[181] Interestingly, in terms of the conversation that we had earlier about where talent is based in the traditional television culture, unsurprisingly the independent talent has tended to cluster around the major broadcast centres—Cardiff, Glasgow, Bristol, and, as we all know, that other place called London. However, that is not necessarily true with digital media, where there are all sorts of different dynamics in play, and so on, where everything from bedroom entrepreneurs to hobbyists and smart technology companies have grown up in different parts of the UK. We are ambitious to try to get a Welsh partner on board, but we would need partnership funding, because we are not required to do this by statute, or indeed by the regulator, and we can only do it if we can find partnerships.

[182] **Alun Davies:** Could you send us a note on your experiences with this project? That would help us to understand whether there are any jams in the system that would prevent broadcasters like you investing in these sorts of projects. It would be useful for us to have a blunt explanation of your own experiences and any comments that you would make on that. If you could allow the committee to have that by the end of the month, that would be useful.

[183] **Mr Duncan:** Yes, we can do that.

[184] **Mr Cosgrove:** That must be balanced by virtue of the fact that, that evening, we went along to the launch of the talent attraction scheme, which was fantastically well partnered and co-ordinated, and so on, so I would not want that one experience to be seen as the experience.

[185] **Alun Davies:** Perhaps the note could contain two paragraphs—one on each.

[186] **Mr Cosgrove:** Yes. [*Laughter.*]

[187] **Alun Davies:** Thank you for that—it has been very helpful. To move on a bit, Mark Thompson, your predecessor, is on the record on numerous occasions, I believe, as saying that Channel 4 would welcome public funding from different sources in order to help develop your public service obligations. Could you expand on that, in terms of where you believe this money could come from, and, if you were successful in receiving public funding from any source, how would you make best use of it?

[188] **Mr Duncan:** To give some historical context, the model for Channel 4 has broadly worked successfully for nearly 26 years, largely off the back of the free analogue spectrum; that has been a key driver in terms of the ability to earn advertising money. We have estimated that the value of that spectrum, on average, over those 26 years, has been something like £150 million a year, so it has been valuable underpinning. While we are ultimately a commercially driven organisation, it is only a commercial means to a public purpose end—we are very clear that the end purpose of Channel 4 is a public purpose, or a set of public purposes.

[189] Therefore, as that value of analogue spectrum disappears—it will have gone altogether by 2012—what we are finding is that it is becoming increasingly difficult to balance the trade-off. Therefore, every day in the schedule there are examples of either direct investments, where the production cost of doing certain sorts of programming is not commercially optimised, or the bigger cost is the opportunity cost of showing what would be

regarded as more typical public service programming, instead of more commercially popular programming. Take the news at 7 p.m. over one hour, for example; if we were to put another sort of programme there, we would get a bigger audience, and be able to show more advertising. However, that ranges from drama to comedy, to current affairs, and so on. Therefore, day in, day out, we are taking decisions that are about delivering our public purpose, but the commercial underpinning is getting more and more problematic for us.

[190] Therefore, going back to your question, what we have been saying for some time now is that, as that model breaks down, if we are to carry on delivering our public purposes, we need a new system of business model. Put simply, in terms of what we would do were the new system put in place, we have laid that down clearly in the 'Next on 4' document. Therefore, there is a series of commitments in programming on the screen, but also around the creative economy more generally—one or two have been referred to today—and there is also a series of commitments to do with smaller independents, training, talent, investment in the British film industry, and so on.

[191] What we have not yet done is gone public on what we believe the best funding model would be to secure that. What we have done is say very clearly that we believe that there is a funding issue, and that the order of magnitude is around 15 per cent of turnover. Therefore, we believe that we can be something like 85 per cent commercially self-reliant, but the approximate gap going forward is similar to the value, historically, of analogue spectrum. We are obviously looking to the Ofcom process this year, and the convergence think tank process that the Department for Culture, Media and Sport is running, to try to finalise preferred funding models.

[192] We are encouraged so far by the response to 'Next on 4'; there seems to be strong consensus that there should be plurality of public service broadcasting. You have the BBC and S4C as publicly funded broadcasters; we believe that Channel 4 should remain a full public purpose organisation, primarily commercially funded, with a limited amount of public, or indirect public, funding. We are hoping, perhaps by this autumn, to get to a point where one or a maximum of two funding options become clear out of the Ofcom process.

[193] **Alun Davies:** You are coy, Mr Duncan. If it were my organisation, I would want to know where its funding was coming from and I would have some clear ideas.

[194] **Mr Duncan:** That is a fair point. There has been a series of building blocks; if you go back two or three years, there was even a debate about whether plurality was needed beyond the BBC and perhaps S4C. We have moved on from that to accepting that there should be plurality. A number of people were validly saying, 'Let us have more clarity about the vision for Channel 4 and what role Channel 4 can play in this modern digital world'. I think that we have answered that clearly, and the response has been extremely good.

[195] Getting to an answer on the best funding model is not that easy; it is a complex issue and any funding option has pros and cons attached to it. We want to ensure that any funding option will protect our ability to be independent, to take creative risks and to still be a pioneer and innovator. At the same time, we want it to be recognised that we are only talking about a minority of our funding—15 per cent of our funding; that is not the same as being entirely or mostly publicly funded. It is more complex than we realised it would be a few years ago, but we are close to getting an answer.

[196] **Alun Davies:** I seem to remember Mark Thompson providing the answer at the MacTaggart lecture some years ago in Edinburgh, when I think that I remember that he suggested top-slicing the licence fee.

[197] **Mr Cosgrove:** He has brushed that out of history. *[Laughter.]*

[198] **Mr Duncan:** I am not sure that he would remember it quite like that. To be fair, Mark anticipated the financial problems a few years ago, although he has gone slightly quiet about them—

[199] **Alun Davies:** He has changed his mind about the solutions.

[200] **Mr Duncan:** There is a strong consensus that there is a financial issue, and there is a growing momentum towards finding an answer. The licence fee or help-in-kind by the BBC are perhaps two of the most practical options in the Ofcom model.

[201] **Alun Davies:** We have got as far as we are going to on that, have we not? In terms of the fee and the amount that you are looking at, you talked about £150 million—is that reasonable?

[202] **Mr Duncan:** To be specific, the gap in the model for the existing organisations is around £100 million, and, by 2012, perhaps a little more than that. There are two further major areas of activity that we are currently piloting. We have already mentioned one today, namely, the Four Innovation for the Public fund. The other is that we are also piloting a major children's fund, bearing in mind what has happened in the market, particularly ITV's almost complete withdrawal. We believe that Channel 4 can play a major role alongside the important contribution that others are still making, especially for the 10 to 15-year-old age group, the slightly older age group, where we think that the Channel 4 brand could fit well. So, we are piloting that as well. In the event that that pilot scheme and the 4IP pilot scheme are successful, the total funding requirement will go up to nearer £150 million. In the event that either of those pilot schemes does not succeed, or it is decided that they were nice ideas, but cannot be afforded, we would simply carry on with our existing model. We strongly believe that the 4IP fund will succeed at some level, and it will be very experimental. We are also optimistic that, at some level, we can provide a complementary contribution to these older children, particularly given the massive drop-off in British-produced programming for that age group, which we think is important. So, we are expecting a funding solution that will take account of our desire to make an ongoing contribution in both those areas. For the time being, we have simply funded two years' worth of pilot schemes for both.

[203] **Mr Cosgrove:** It is worth keeping in mind, Alun, that that partnership model involves public money, largely through regional public agencies across the UK, but it does not involve top-slicing the licence fee. So, we are aware that there are other things that we need to think about.

[204] **Alun Davies:** It is a fascinating subject; as you might imagine, it is one that has come up on numerous occasions in this committee, and, in fact, it came up in the previous session. Michael Grade's view is that public funding or subsidy is incompatible with the model of PSB broadcasting that we have in United Kingdom.

[205] **Mr Duncan:** Michael has his own views, which have changed somewhat over the years, depending on what his role has been. Our view of Channel 4 and where it should go is similar to what he believed when he was at Channel 4, namely that it should not be privatised and should remain a public organisation; that is what we still believe. In addition, given the direction in which Michael wants to take ITV, which is effectively less public service obligations and commitments over time and if it happens to be in line with market forces, it will do it, but if it does not, it will not. I think that that is the ITV position, but we are saying the exact opposite—we are there for public purposes, we enjoy that, that is what we were put on this earth to do, and we would like to do even more of it, particularly in a multimedia context. I do not think that those two things are mutually exclusive.

3.30 p.m.

[206] **Alun Davies:** You have discussed your public service remit, and you see it in terms of breadth of content, as well as how that content is produced from sources across the UK. Do you see any development of the news service? We have all agreed—and I think that you and former chief executives of Channel 4 agree—that Channel 4 has always had a broad commitment to a plurality of news provision. *Channel 4 News* is a marvellous service, but it is very much a Channel 4 programme—there is no regional content at all. Do you see any role in the future for a regional aspect to that?

[207] **Mr Duncan:** First and foremost, as you say, we have a UK-wide news service. Without question, it is the most important part of our programming and, in public service terms, the thing that we are most proud of. We have taken steps to try to strengthen that over the last few years. For example, in our most recent contract with ITN, we invested further in correspondents and some international coverage, and we have introduced a half-hour news programme on More4 at 8 p.m. that I think is complementary. We have done quite a few things online, and we are hoping, through the 4IP fund, to potentially extend our news coverage. Finally, in terms of radio, there is the potential for a speech radio station and for news provision there.

[208] I would contrast two things. We have always had strong regional, national and international coverage within the news, which is then broadcast to the whole of the UK, and that is our point of difference—that is what we provide. We do not have a history or a track record of providing opt-out services regionally, although it is worth saying that our ability to do what we do UK-wide depends, in part, on the ITV regional infrastructure. So, one of our concerns with some of ITV's plans is that, if we are not careful, they will not just weaken what ITV provides, but also our ability to provide news stories from around the UK.

[209] It is also worth saying, although there is nothing firm at this stage, that we are asking ourselves the question: in a digital world, post-2012, to what extent could we offer further enhancements? It is fair to say that our No. 1 priority is retaining and, if anything, strengthening the quality of the point of difference that we think that we currently bring. For example, we have the ability to go in depth on major issues during the 7 p.m. news, because we have an hour—last week, we had the first 25 minutes of one programme just about the economy. On other occasions we have taken an international issue and perhaps spent half an hour on it. So, the ability to go into real depth and properly analyse and get under the skin of issues is an important difference from either ITV or BBC. Our priority is to retain that, and we are looking at whether, particularly through the 4IP fund, there might be other ways of enhancing that, possibly with more of a regional component.

[210] **Mr Cosgrove:** There is one small caveat, Alun, that is worth keeping in mind—the *Channel 4 News* contract means that we require the contracted company, ITN, to manage what is called a news independence fund. It is modest, amounting to £0.25 million, but the intention is for young, emerging news and current affairs journalists to be able to pitch stories to the news that would be made independently and regionally. The Bridgend suicides story would be a recent example of how that might work. We probably do not get as many ideas from Wales as we would like, but then again, going back to Peter's thought about what you are doing about it structurally, it is equally the case that we have not set up a co-production arrangement with Cardiff School of Journalism, for example. So, there are things that we could probably do to get better ideas or stronger ideas, but we do not get them as much as we would like.

[211] **Alun Davies:** Thank you—that is interesting. When I think of *Channel 4 News*, what strikes me is the political coverage from London, which I think is first-class, and also the international coverage, which stands out. I think that it is only *Channel 4 News* and *Newsnight*

that have the ability to report international issues in any real depth, and that is quite striking. In comparison, I cannot really think of any story from Wales, particularly political stories, that you have covered, apart from brief introductory news items along the lines of ‘Labour did not win the election, again’. For argument’s sake, let me give you an example. A year ago, we were going through all the coalition negotiations here in Cardiff, and I do not think that that was covered at all by *Channel 4 News*.

[212] **Mr Cosgrove:** That is pretty much a fair comment. For all sorts of historic reasons—and this is where there is a clear difference between Scotland and Wales—one thing that has not served Wales well is the Assembly’s business. In the press, there are very small numbers of highly regionalised newspapers, but there is no equivalent of *The Herald* or *The Scotsman* or those big daily broadsheets in Scotland. That is generally true of all branches of the media, and Channel 4 is not exempt from that. Picking up on Andy’s point, I was in conversation with a producer the other day about the point at which you move into new media and start to look at how RSS, real simple syndication, works technologically. There is no good reason why we could not begin to address that gap, under something like Four Innovation for the Public—the 4IP fund—even if it is in a slightly modest way. I do not think that that is a problem for Channel 4; that is an issue about how democracy is represented in Wales more generally across fields of journalism.

[213] **Alun Davies:** You are right on that. Channel 4 covered the fate of Shambo, but did not cover the fate of a nation, if you like, which is a strange editorial judgment to make. However, that is clearly a matter for you and not for politicians. Do you have any structures in place to monitor these sorts of issues? For instance, do you have any objectives for your news coverage and an ability to measure what you produce according to those objectives?

[214] **Mr Duncan:** We monitor a broad range of coverage from across the UK, and it might be appropriate to drop you a short note to give you some more information about how we go about doing that. I am not aware of any policy that would cause us not to cover stories as such, but, as Stuart said, there might be a fair point there. So, I would be happy to come back to you with some specific points about how we do monitoring.

[215] **Alun Davies:** Sorry, Mr Toon, I believe that I interrupted you earlier.

[216] **Mr Toon:** I was just going to suggest the same thing, that perhaps we check what has and has not been covered and to what degree, and have a chat with some of the people at ITN and *Channel 4 News* about why those decisions were made.

[217] The other broader point that I was going to make was about pluralism in the system. As you rightly identified, *Channel 4 News* brings something different, and more than 40 per cent of the *Channel 4 News* agenda is internationally driven. According to our research over the years, having a national bulletin looking out to the wider world rather than focusing so much on the UK context is highly appreciated across the UK, particularly in the nations.

[218] To pick up on the point that Michael Grade made when you asked him about regional news, we have all added something different to the system over the years, and that comes out strongly from the Ofcom work. We are looking at what we can bring to the mix, but it is clear from the audience research and the Ofcom work that what audiences want is competition in regional news between ITV and the BBC. If there were a way of sustaining that, that would be a great place from which to start. As Andy said, we would then benefit from a strong ITV regional news system, which would mean that we would have access to correspondents, resources, and so on. As we look for the solution to the Channel 4 question, we need to think about the answers to the other parts of the jigsaw, which are currently problematic.

[219] **Alun Davies:** I appreciate that, but, at the same time, in a different United Kingdom,

we need to redefine politics as something that happens outside the golden triangle at Westminster, and reflect the diversity of debate and decisions being taken across the whole kingdom. We all have something to learn from each other, and it is therefore a disappointment if you do not see the decisions taken that affect your life being reflected at all on the political agenda of broadcasters. I understand that Tony King is leading an investigation of this at the BBC; if you found that Channel 4 was not covering the United Kingdom as a whole—and I know that we are talking specifically about Wales—would you consider a review or take similar action?

[220] **Mr Duncan:** It might be premature to decide now whether a review is necessary. At a very top-line level, the data that I have seen always suggest that we cover a real breadth of issues. I do not have those data in front of me today, but I would be happy to go away and check that. If we do find that there is cause for concern, we would want to do consider it.

3.40 p.m.

[221] **Mr Cosgrove:** I just want to clarify, Chair, that, within the Channel 4 model, we are outsourcing the news to a contracted supplier, ITN, which has to meet certain contractual requirements. If truth to be told, Channel 4 has used editorial issues to push the hardest possible bargain over the years. For example, the outbreak of the war in Iraq led to a huge ramping-up of activity, but we were still holding it to strong contractual conditions. So, you could certainly review that at the point of renewing the contract.

[222] **Alun Davies:** Okay, thank you for that. If Members have no further questions, I will thank you for your contribution this afternoon. It has been very useful for us, and we appreciate the time that you have taken to come here to give evidence and to provide a written submission to us beforehand. We very much appreciate that, and thank you for that. A transcript will be available of this afternoon's session for you to review. I also thank Members for their attendance this afternoon. The next committee meeting is on the afternoon of Monday, 19 May, when we will take evidence from Professor Justin Lewis of Cardiff University, and from community radio.

[223] Diolch yn fawr. Dyna ddiwedd y Thanks very much. That is the end of the cyfarfod. meeting.

*Daeth y cyfarfod i ben am 3.41 p.m.
The meeting ended at 3.41 p.m.*