

## Communities, Equality and Local Government Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

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Meeting date:

**27 March 2014**

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Meeting time:

**08.50**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



For further information please contact:

**Sarah Beasley**

Committee Clerk

029 2089 8032

[CELG.committee@wales.gov.uk](mailto:CELG.committee@wales.gov.uk)

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### Agenda – Supplementary Documents

#### Supplementary Pack 2

Please note the documents below are in addition to those published in the main Agenda and Reports pack for this Meeting

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**2 The future outlook for the media in Wales: follow-up session with S4C (9:00–10:00)** (Pages 1 – 7)

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## **S4C written evidence to the Communities, Equality and Local Government Committee before evidence session 27.3.2014**

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### **Background**

S4C is the only Welsh language television channel in the world. As a public service broadcaster (PSB), S4C has a duty to provide a broad range of high-quality and diverse programming, providing information, education and entertainment, available for reception wholly or mainly by members of the public in Wales.

As a PSB serving the whole of Wales since 1982, S4C's service aims to fully reflect the life of the nation and its communities. Viewers expect S4C to provide a comprehensive public service, offering the full range of programme genres, including news and current affairs, documentaries, drama, entertainment, sport, education and children's programmes.

S4C is a publisher broadcaster in that it commissions independent producers – mainly from Wales – to make the majority of its programmes. The BBC also provides 10 hours of content a week free of charge to S4C under statute – this includes the **Newyddion** (News) service, the long-running soap **Pobol y Cwm**, and some of the sports and events output.

As a public service – rather than a state broadcaster – operational and editorial independence is essential to S4C's ability to operate completely impartially, independent from governmental, political and other influences. S4C's special role in delivering high-quality Welsh-language programmes and content to its audiences is vital - be they fluent Welsh speakers, less fluent, learners or aspiring learners – and these are given greater impact through the provision of subtitling and red button services across all platforms.

### **Finance and Economic impact of S4C**

#### **Finance**

In order to secure S4C's ability to provide a comprehensive Welsh language service of high quality and its independence as a public service broadcaster, a commitment to long term funding and to sufficient funding for an extended period are essential.

The Secretary of State for Culture, Media and Sport has a statutory duty to ensure that S4C receives "sufficient funding" to enable it to fulfil its remit and provide its public services. The Government's responsibility for, and commitment to S4C's funding dates back to the commencement of S4C in 1982. The previous guaranteed statutory funding formula was repealed in 2011 and replaced by a statutory duty upon the Secretary of State to ensure "sufficient funding" by the Public Bodies Act 2011. Over the period since 1982, the source of S4C's funding has varied between a percentage of the advertising revenue of the ITV companies throughout the UK in early days (which was similar to the arrangements for Channel 4 at its launch) to grant-in-aid from the Home Office and eventually the DCMS and now a mixture of funding from DCMS, the BBC Trust and commercial revenues generated by S4C. Despite the changes to the funding source and mechanism over the past thirty years, the statutory provisions have always outlined the financial requirement to enable S4C to provide a high-quality Welsh language service.

Until the Licence Fee settlement announcement of 2010, S4C's funding primarily came from grant-in-aid from the UK Government. Following the UK Government's Comprehensive Spending Review in 2010, S4C's budget was cut by 36% in real terms over a period of four years. Changes were also made to the funding source. Since April 2013 and for the remainder of the period of the current BBC Charter,

the majority of S4C's funding now comes from the Licence Fee, through the BBC Trust. Following a public consultation, a new Operating Agreement between the S4C Authority and the BBC Trust has been put in place, which guarantees S4C's operational, managerial and editorial independence, whilst providing appropriate accountability to the BBC Trust for the use of Licence Fee money.

The Agreement with the BBC Trust provides for further incremental cuts of around 1% in the level of funding from this source in each of the 2015-16 and 2016-17 financial years.

It has been agreed that the BBC will contribute the following funding from the licence fee to S4C:

2013-14 £76.3m  
2014-15 £76m  
2015-16 £75.25m  
2016-17 £74.5m

The Secretary of State for Culture, Media and Sport (DCMS) has a statutory duty to ensure the sufficient funding of S4C, and under the current Comprehensive Spending Review has committed a continued element of funding for S4C, though this has reduced significantly and is only guaranteed until March 2016. In addition, cuts of 1% in 2013 and 2% in 2014 were announced in the 2012 Autumn Statement, followed by further cuts announced in the 2013 UK Budget Statement – of an extra 1.06% cut in 2013 and 1.09% in 2014.

### **The Impact of S4C Funding on the wider economy in Wales**

In 2012, 77% of S4C's public service fund was invested in commissioned programmes (with 19% spent on costs associated with the programme service and only 4% spent on operating and administrative costs). This investment in the programme service is cash transferred directly to the private sector. This model has led to an independent production sector in Wales that is strong, innovative, which compares with the best in the world, and which has grown alongside S4C since the start of the channel in 1982. S4C has contributed £2.2 billion to the Welsh economy over the past 30 years, and the channel continues to have a significant impact on the economy.

A recent analysis by Arad Research (June 2013) showed that,

- **an investment of £63.7 million by S4C in the creative industries in Wales was responsible for the creation of an additional £60.5 million spent in the Welsh economy and a total economic impact on the creative industries in Wales of £124.3 million**
- **every pound invested by S4C in the creative industries in Wales in 2012 was worth almost £2 (£1.95) to the Welsh economy.**

Following the changes in S4C's funding arrangements and the reduction in its funding, S4C has had to make difficult decisions in order to achieve savings. These have included two rounds of job losses and a reduction in staff of around 25%, reducing the average cost per hour of its content from £16,374 in 2009 to £11,743 in 2012, and the difficult decision to discontinue the high definition Clirlun service in December 2012. Such decisions have been made with the aim of ensuring the best possible value for money, whilst minimising the impact savings would have on S4C's audience and content on screen. It is likely that this would not be the case with any future reductions in funding, as any further reductions would have a severe impact on our content budget and possibly have a significant impact on the independent and creative industries in Wales.

The Authority has developed a range of performance measures that include viewing figures and qualitative measurements that provide a wider perspective of the usage and appreciation of S4C's services. Success today is interpreted through a combination of factors including reach of the service, economic impact, audience appreciation, trust, successful provision for learners, children's programmes, and by securing a positive impact on the Welsh language and awareness of the culture of Wales.

The nine performance measures used in the Annual Report, (already sent out to the Committee), provide a comprehensive assessment of the performance of the S4C service during 2012. They demonstrate that the channel's services, despite the challenges faced, continue to be appreciated by the audience and that S4C has continued to operate efficiently and provide for money.

Efficiency and value for money are a key priority for S4C, and not only in a time of financial constraint. The average cost per hour of content commissioned by S4C has fallen from just over £52,000 in 2009 to £37,000 per hour in 2012, with the cost per hour of all S4C broadcasts reducing from just over £16,000 to just over £11,000 in 2012. These are significant reductions delivered by the independent production companies for S4C. Efficiency and value for money will continue to be scrutinised in order to enable S4C to prioritise investment in the production sector. Having said that, the significant improvements have now been identified and it is likely that any further improvements will be on a different scale.

## **Relocation**

Following a detailed feasibility study, it was announced on March 14<sup>th</sup> 2014, that the S4C Authority had approved a proposal to relocate the channel's headquarters to Carmarthen by 2018. This is a decision in principle, and is subject to contract with the leaders of the bid in Carmarthen. S4C had asked prospective partners to look at how relocating S4C might act as a catalyst to create benefits for the language, culture and the economy of the area, noting that any move must be cost neutral over a period. The Carmarthenshire bid is transformational, and it is hoped that the proposed brand-new centre will create a linguistic, cultural and economic powerhouse whilst also providing benefits for S4C's service – creatively and operationally. A number of other organisations have already shown an interest in sharing the site and the next steps for the project have already commenced.

The Authority also approved the principle of co-locating elements of S4C's work with the BBC in Cardiff. There will be ongoing discussions about this with the BBC – with the final decision subject to reaching agreement with the BBC.

## **Partnerships**

Partnerships are central to S4C. The channel is forming creative partnerships with institutions, organisations, communities and individuals across Wales – and beyond – in order to create the best possible opportunities, the best possible content for the audience and to ensure our public value. S4C now has formal partnership arrangements with a number of other leading organisations – including the Arts Council of Wales, Yr Urdd, FILMCLUB Wales, It's My Shout and Theatr Genedlaethol Cymru. The past year has seen co-operation across a range of programmes, including **Y Gwyll** (College of Music and Drama, University of Aberystwyth, Visit Wales and Discover Ceredigion), **Y Plas** (The National Trust), with the Welsh Books Council around the **Chwe Nofel** (Six Novels) series and **#dathludarlenn**. Our projects for young people – **DymaFi**, with the Children's Commissioner, yr Urdd, Cwmni Da, and Young Farmers' Club, and **Hacio'n Holi**, with ITV Wales, the National Assembly for Wales and a number of schools across Wales – have also provided value and opportunities for our audience and openings for new voices.

## **Relationship with the BBC**

S4C has a close working relationship with the BBC through the Operating Agreement and the Strategic Partnership. The Operating Agreement between the S4C Authority and the BBC Trust sets out the financial contribution that comes from the Licence Fee through the Trust until 2016/17. In addition, the agreement notes the accountability arrangements for Licence Fee spend. The agreement also establishes a Partnership Board with a view to promoting strategic co-operation between S4C and the BBC.

The Strategic Partnership between the BBC and S4C, which was agreed in November 2012, relates to the BBC's statutory programme provision to S4C – a minimum of ten hours a week, free - and sets out the financial value of the contribution, which is £19.4 million for the years 2013/14, 2014/15, 2015/16 and 2016/17. It is also worth noting that the partnership is wider than funding alone, covering joint planning in relation to the reasonable needs of the S4C Authority.

With the majority of S4C's income now coming from the Licence Fee, the next BBC Charter - and the process of negotiating it – will now have significant relevance to S4C. There will be a need to ensure that the channel's voice, and that of Wales, are clearly heard within the process.

## **Digital**

With broadcasting now a multi-platform world, audiences increasingly expect to watch content at a time, and on devices, of their own choosing, the digital element is an essential consideration for all broadcasters of quality. The S4C service has subsequently evolved, with the channel now offering innovative digital services. From S4C's catch-up service, Clic, - which has seen a significant increase of 1.1m viewing sessions in 2009 to 2.8m in 2012, with the growth maintained in 2013 and also this year to date, to the new digital fund to encourage innovation, which has led to successful partnerships such as the Urdd app and the app that was used at the Royal Welsh show, to e-books to coincide with children's programmes, and the first console game in Welsh – **Enaid Coll**, S4C has established itself as a leader in the field, ensuring that viewers are offered the best possible content.

The twitter service, **Ti, Fi a Cyw** ('you, me and Cyw') enables parents who are learning Welsh to enjoy S4C's pre-school programmes with their children, and in addition to being a partner in the Welsh Government's HWB scheme, S4C is also working with the Swansea-based LIFE project that supports children and young people as they learn using technology.

## **The Commission on Devolution in Wales/Second Silk Report**

S4C notes the recommendations set out in the second Silk report published on 3 March 2014,

*R.19 The regulation of broadcasting should remain the responsibility of the UK Government.*

*R.21 On S4C, we recommend:*

*a. within the framework that the bulk of funding should continue to be met from the licence fee, responsibility for funding the public expenditure element of S4C should be devolved to the National Assembly for Wales; and*

*b. in the meantime the appointment of the S4C Authority members by the UK Government should require Welsh Government agreement.*

We are grateful to the Commission for giving consideration to the future of S4C as part of its work. S4C places considerable emphasis on ensuring a strong relationship with the United Kingdom Government and the Welsh Government, and we wish to continue to maintain our relationships with both governments as we face the challenges of the future. We will continue to discuss with our stakeholders with a view to ensuring that S4C is sufficiently funded, in accordance with the legislation.

In response to a request for evidence from the Commission on Devolution in Wales in 2013, S4C noted that policymakers would need to consider a number of matters were the policy area to be devolved these included legislation, content standards, control and regulation of spectrum, technical regulation, and advertising. Ofcom has a clear role regarding spectrum regulation, technological standards and public service broadcasting content throughout the UK. Beyond the UK, EU directives, such as AVMS, are also relevant to Wales.

## **Legislation**

Important changes to the UK broadcasting framework have traditionally been made through legislation, in the form of successive acts of Parliament. This has been the case in relation to the establishment and subsequent amendments made to Channel 4 and S4C since 1982. The remits of both organisations and the nature and duties of their governing bodies as well as provisions for their funding by many various arrangements (see above) are set out in statute. In considering the feasibility of devolution of broadcasting, it is necessary to consider the results and limitations of separate legislation for broadcasting in Wales separately from the UK context.

The devolution of responsibility for the governance and funding of S4C is a matter for policy makers. However, the need to provide assurance and a guarantee of sufficient funding, operational and editorial independence, and a strong base to be able to operate competitively, are important factors when considering this question.

The accountability of the Authority is set out in statute and in the Operating Agreement between the Authority and the BBC Trust. The legislation states that S4C is accountable to Parliament in Westminster, and includes an obligation on the Authority to present, through the Secretary of State, an Annual Report and a Statement of Accounts to Parliament each year. This accountability has also included giving evidence to and being subject of reviews by select committees.

The new Operating Agreement also includes provision for the accountability of the Authority for the use of the Licence Fee, provided by the BBC Trust. This provision complements, rather than replaces, the statutory provision and it includes preparations by the Authority and the Trust for the annual assessment of performance of S4C's services against the provisions of the agreement as well as a provision for the National Audit Office to review S4C's activities in the same way as those of the BBC. The processes that have been developed to implement the requirements of the Agreement, together with the recent scrutiny by the Trust's Audience Committee of the performance of S4C's services and the proposed 2013 Annual Report demonstrate that S4C is able to adapt and develop new methods of providing accountability in situations where its operational and editorial independence is protected.

The Authority's desire to ensure appropriate accountability to elected members has meant giving evidence to committees at Westminster and, although there is no legislative requirement, to the National Assembly for Wales.

## **Governance of S4C**

The S4C Authority's duties and powers are derived from statute, including the provisions of the Broadcasting Acts of 1990 and 1996, the Communications Act 2003, together with the relevant funding provisions contained within the Public Bodies Act 2011. The S4C Authority also has a statutory duty to comply with Ofcom's relevant broadcasting codes and quotas in relation to several aspects of the regulation of S4C.

The S4C Authority is accountable for S4C's output and its proper management. The Authority has a duty to ensure that S4C provides a wide range of programmes which are varied and of high quality, providing information, education and entertainment, and that they are available for viewing wholly or

mainly by members of the public in Wales. The S4C Authority and the BBC Trust have put in place arrangements to ensure accountability for funding from the Licence Fee.

Wherever the formal responsibility for S4C lies within government, two over-riding requirements will need to be considered to ensure S4C can continue to deliver a high quality service which meets the needs of the people of Wales.

The first is sufficient funding and the second is editorial and operational independence.

Currently, the Secretary of State for Culture, Media and Sport has a statutory duty to ensure sufficient funding for S4C to carry out its functions and this duty may be discharged either by providing such funding directly from Government funds, or by ensuring / or relying on the commitment of cash funding from other sources or a combination of both. Currently, c. 90% of S4C funding is derived from the BBC Licence Fee as a result of a combination of the September 2010 agreement between the UK Government and the BBC Trust, and the tripartite agreement between the S4C Authority, DCMS and the BBC Trust. 10% is provided directly by DCMS, (outside the Barnett formula). As noted above, it seems unavoidable that ensuring continued sufficient funding for S4C will be an issue that will require consideration in discussions relating to the BBC Charter at a UK level.

In considering the role of the BBC Trust as custodian of the Licence Fee, S4C's need is for the Charter to include a commitment to the funding of S4C, at a defined level, for the duration of the next Charter. The interest and support of the Welsh Assembly and Welsh Government in securing such an outcome is likely to be critical.

The remaining c. 10% of funding (£6.7m) provided by the UK Government is also an extremely important element, and S4C would be deeply concerned at any reduction therein. Currently, the fact that this element is linked, through the Secretary of State for Culture, Media and Sport, to the broader issues of how PSB is provided across the UK, provides a degree of certainty that the needs of Welsh-language broadcasting will continue to receive the same consideration within wider discussions as has been the case since 1982.

The idea of substituting Welsh Government funding, wholly or partly, for the element of funding that is provided by DCMS is interesting and worthy of consideration by policy makers, provided that there is clarity as to the purposes for which this funding is to be applied (i.e. S4C's statutory purposes) and that S4C's editorial and operational independence is respected.

Even without such a funding link, S4C is keen to continue to develop its partnerships with Welsh Government departments and funded bodies to ensure the maximum advantage for the people of Wales from activities which reflect shared objectives.

The processes of appointment to the S4C Authority, to which Silk refers, are, in practice, currently already undertaken on a joint basis. The interview panel for forthcoming appointments to the S4C Authority will include a representative of the Welsh Government.

## **Conclusion**

Wales has a strong broadcast tradition in both of the nation's languages, world-class creative industries as well as a highly-skilled independent production sector. Despite the challenges of the current climate, S4C has so far managed the cuts made to its funding with what it hopes is the minimum effect on its on-screen content. It is likely that this will not be the case if funding is further reduced.

S4C values the relationship with the National Assembly for Wales and the Welsh Government, and welcomes the opportunity to give evidence to the Committee on 27th March 2014.

For further details, please contact:  
Catrin Hughes Roberts,  
Head Of Partnerships  
[catrin.hughes.roberts@s4c.co.uk](mailto:catrin.hughes.roberts@s4c.co.uk)