

## Introduction

1. Teledwyr Annibynnol Cymru represents independent TV production companies in Wales. There are around 60 companies ranging from small firms to some of the leading players in the UK. They predominantly produce television programmes and digital content for the UK PSB networks – BBC, Channel 4, ITV, Channel 5 – as well as for cable and satellite channels, and are also involved in international co-productions. They also produce almost all of the original programmes on S4C and a variety of productions for BBC Radio Wales and BBC Radio Cymru.
2. TAC greatly welcomes the decision by the CWLC Committee to hold an inquiry on S4C. This is a hugely important year as we prepare for the independent S4C Review, and the Committee's work will provide an important contribution to that process.

What sufficient funding for the channel looks like For example, who should provide it, and how should it be calculated – should it be linked to a formula? How should this be supplemented with revenue raised by S4C?

3. Establishing a long-term stable structure for sustainable funding is the most significant issue to be addressed for S4C. As the Committee is aware, S4C's funding formula has been subject to frequent changes in recent years, particularly as a result of the 2010 UK Government Spending Review, and as a consequence S4C's budget has been severely reduced.
4. The decision in the 2010 CSR to reduce S4C's funding was in clear contradiction with the findings Ofcom's second PSB Review which, in January 2009, stated that:

‘Existing government funding should continue for other public service broadcasters (S4C and BBC Alba) in the devolved nations, to ensure they can continue to fulfil their public roles.’<sup>1</sup>

‘Direct government funding offers potentially high and secure funding and reduces issues with collection and incentives of recipients.’<sup>2</sup>

5. The Government’s letter to Lord Hall in 2015, concerning the transition of paying for free over-75s TV Licences to the TV Licence Fee, states that ‘The BBC’s grant to S4C may be reduced by an equivalent percentage reduction in funding to the percentage reduction made to BBC funding over the period 2018/19 – 2020/21. It will be up to the Government to decide how to make up the shortfall’.<sup>3</sup>
6. The above points are important to consider as we look forward. The acknowledgement that there is a shortfall, and that the Government is obliged to do address it, makes it particularly disappointing that the Government subsequently decided to further cut S4C’s DCMS funding, cuts which were only frozen after TAC and others called for a reversal of that policy.
7. The effects of the cuts in 2010 were to some extent mitigated by two factors: firstly the S4C management reduced administration costs and used the partnership with the BBC to save on things such as transmission costs. Secondly, the independent production sector also worked hard to reduce costs. But as Ofcom stated in its last UK PSB review: ‘demand for production staff and studio costs is now increasing, and savings – in terms of producing the same programmes with smaller crews and fewer filming days – have largely been realised’<sup>4</sup>.

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<sup>1</sup> Second Public Service Broadcasting Review: Putting Viewers First. Ofcom, January 2009, p11, para 1.87

<sup>2</sup> Second Public Service Broadcasting Review: Putting Viewers First. Ofcom, January 2009, p51, para 5.47

<sup>3</sup> Letter on arrangements for over-75s TV licence concession from 2017/18. HM Treasury & DCMS to Lord Hall, 3 July 2015

<sup>4</sup> Public Service Broadcasting in the Internet Age: 3rd Review of Public Service Broadcasting. Ofcom, July 2015, p9 para 3.15

8. Even if the current level of S4C budget was linked to inflation, it would not be sufficient to counter the ongoing effects on audiences of so many repeats. There is also the need for S4C to follow other broadcasters and invest in being available on as many platforms as possible. S4C's online viewing, particularly via the iPlayer, has increased substantially, up from 5.7m in 2014-15 to 8.4m in 2015-16<sup>5</sup>, showing that viewers throughout the UK enjoy watching S4C.
9. The non-Licence Fee direct public funding received by S4C is important, as stated by Lord Puttnam's recent PSB review: 'the government's commitment to language programming has to be backed up with secure, long-term funding. Given the particular purposes they serve in relation to national heritage, cultural diversity and education, we feel that they should be at least partially funded by ring-fenced money – either from central government or another source – and not left to survive on whatever the BBC can find from its (declining) budgets.'<sup>6</sup>
10. Extra public investment should not be seen as a cost to the taxpayer. As research has demonstrated S4C more than doubles the value of its money by investing in the local creative economy<sup>7</sup>. Clearly, additional investment will deliver further economic benefits.
11. The committee asks whether a formula is needed. A long-term stable structure for sustainable funding is certainly needed, enabling S4C to invest in high quality television programmes and digital content which is relevant and engaging to its audience and contribute significantly towards the Welsh Government's objective of achieving a million Welsh speakers by 2050. This funding formula should incorporate a commitment from both of S4C's current primary funders – the TV Licence Fee and the DCMS contribution – with an irrevocable commitment for such funding to run concurrently with the review of the TV Licence Fee structure, in addition to continuing to allow S4C to generate commercial income in its current form.

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<sup>5</sup> Annual Report 2015-16. S4C, 2016, p4

<sup>6</sup> A Future for Public Service Television. Goldsmiths College/University of London, June 2016, p126

<sup>7</sup> Annual Report 2015-16. S4C, 2016, p4

12. The level of S4C's funding has fallen to a point at which TAC considers it is below what should be statutorily provided as 'sufficient funding'. There should be an immediate boost for S4C's public funding of 10% (i.e. 10% of the combined total from both the DCMS and TV Licence Fee, which would amount to around £8.3m), plus being linked to inflation so it keeps pace.
13. Maintaining a combination of funding sources will further emphasise S4C's independence and help prevent S4C from being unduly influenced by a single funding source. Moving most of S4C's funding to the TV Licence Fee amounted to an approximate 96% public spending reduction, a saving greatly in excess of most public spending cuts under the Government's austerity programme. Raising the DCMS grant to £15m would therefore still constitute a major reduction in DCMS spending on S4C from pre-2010 levels of above £100m.
14. Furthermore, we would argue that it is no longer logical for the BBC to control and determine the production of the statutory 10 hours non-news and news related programmes broadcast on S4C's services. TAC understands that the 10 hours currently cost about £20m per annum to produce, of which news amounts to approximately £6m. TAC would like the balance of £14m transferred to S4C's, so that it has sole control over both the editorial content and who should produce it.
15. On another note, some of the government's highly beneficial tax breaks for the creative industries have not been as useful to S4C as to other UK PSBs. Due to S4C's lower budgets for drama, its production do not qualify for the high-end TV tax credit, and TAC would like to see a lower threshold for UK minority indigenous language productions.

What S4C's statutory remit should be. Is its current remit fit for a contemporary broadcaster, and if not, how should it change? How should it reflect the digital role of a modern broadcaster?

16. S4C's remit requires 'the provision of a broad range of high quality and diverse programming', most of which must be in Welsh<sup>8</sup>. A wide-ranging remit increases S4C's scope to raise additional revenues, as at least some of

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<sup>8</sup> Communications Act 2003. HM Government, 2003, section 204 (2)

the genres, for example high-quality drama such as 'Y Gwyll', will be of commercial benefit.

17. S4C's stated role should also be to portray Wales and its culture and people to the rest of the UK and beyond. New platforms make this much more viable, as demonstrated by the success of S4C on the BBC iPlayer, as well as You Tube, Facebook and Twitter. S4C's role to be present on these platforms should be clearly recognised in its remit.
18. S4C's report 'The Future of Welsh Language Television' stated that one of S4C's key objectives from 2017 should be to; 'have an impact on the creative industries, and local economies and communities across Wales and support growth in the Welsh language'<sup>9</sup>. In accordance with this, S4C's remit should have a greater overt emphasis on working with a wide range of production companies. S4C's role in providing first commissions and an ongoing supply of work provides greater financial stability for the creative TV sector. Producers can use their track record with S4C to gain commissions from UK-wide broadcasters. It allows TAC members to further develop training and skills, and make capital investments in plant and equipment, as well as reaching out to new markets and attracting inward investment.

**What governance and accountability structures S4C should have in place. For example, should responsibility for S4C be devolved to Wales?**

19. TAC supports the continuation of the S4C Authority provided it can be demonstrated it is not too heavily involved in day-to-day affairs and is concentrating on core oversight to the service. The S4C Authority can regulate S4C in a co-regulatory model with Ofcom overseeing it, making sure that the TVLF is well spent by S4C, without any involvement from the BBC. The Authority should perhaps therefore be the 'S4C Regulator'.
20. There should be the opportunity within the governance structure for official representatives of the independent sector to comment on changes to commissioning strategy before they are finalised, to avoid any policies which might inadvertently damage the ecology of the sector.

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<sup>9</sup> The Future of Welsh Language Television. S4C, 2014, p34-35

21. We understand that the DCMS, BBC and S4C are discussing a ‘post – BBC Trust’ arrangement, described thus by S4C Chief Executive Ian Jones to the CWLC Committee last year: “The relationship will become more of a contractual one ... the implication is that S4C will account to the BBC for the fact that the money has been used for the purpose intended.”<sup>10</sup>
22. This should be viewed with concern, as whilst the BBC Trust was at least an ‘arms-length’ body, the new ‘contract’ would be between the S4C Authority and the Board of the BBC itself. This situation represents a significant conflict of interest – it cannot be right for the board of one broadcaster to have any say over the affairs of another.
23. To safeguard S4C’s independence, the portion of the TV Licence Fee that goes to S4C should be wholly separated, and not require any oversight of any sort from the BBC. TAC would like to see the relevant TVLF funds go directly to the S4C Authority (or ‘Regulator’), which is after all entrusted by Government to ensure that S4C is spending the funds correctly. Furthermore S4C’s TV Licence Fee income should also be ring-fenced and protected from any further reductions as a result of extra obligations placed on the BBC, such as happened recently in terms of the BBC having to adopt funding of TV Licence Fees for the over-75s.
24. TAC would urge caution in terms of devolving S4C to Wales. As a valued cultural asset, the Welsh language should rightly be supported by UK Government. Working with all of the UK PSBs, TAC members witness the importance of S4C being part of the wider UK PSB ecology.
25. It would be unfortunate to potentially marginalise S4C and make it a niche service considered only to be of importance to Wales, when in fact its programmes have a much wider impact, as does the creative TV sector with which it works. S4C’s funding should not become a matter for the Welsh Assembly Government to have to consider next to priority spending on the economy, health, education, environmental matters and other devolved matters.

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<sup>10</sup> The Big Picture: The Committee’s Initial Views on Broadcasting in Wales. National Assembly for Wales – Culture, Welsh Language and Communications Committee, February 2017, p23 (63)

## What S4C's relationship with the BBC should look like

26. There are undoubtedly benefits from the partnership between S4C and the BBC, such as sharing transmission services. Co-commissioning or cost sharing of certain high value programmes such as drama, cultural and sports events and rights, bring benefits both to broadcasters and commissioned producers. TAC's ensures that the Terms of Trade, as stipulated by the Communications Act, are adhered to by S4C when dealing with the independent sector on such commissions.
27. In the light of changes in the BBC Charter making more of BBC TV programmes open to competition, working with an increased number of the Welsh independent sector can help improve diversity of voice on the BBC, as well as fulfilling the BBC Charter requirement for the BBC to work with the creative economy<sup>11</sup>.
28. Nevertheless, as stated above the BBC-S4C relationship should not involve the portion of the TV Licence Fee that goes to S4C is allocated towards part funding the S4C service.

## The visibility of S4C: covering issues such as S4C's prominence on the electronic programme guide and smart TVs.

29. The prominence of all free-to-air public service broadcasters on the EPG and smart TVs remains crucial. In some way or other all PSBs benefit from public support in terms of spectrum and in some cases public funding. Therefore the public should find them readily available. Research has shown the EPG position has a direct relation to the viewing habits of the channels concerned and as S4C clearly does not have the marketing budgets of some other broadcasters it is crucial it can be prominent in other ways.
30. We agree with the Committee's recommendation that 'UK Government and Ofcom consider amending Ofcom's Code of Practice for EPG providers to

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<sup>11</sup> The description of the BBC's fourth public purpose in its new Charter includes the statement that: 'In commissioning and delivering output the BBC should invest in the creative economies of each of the nations and contribute to their development'. Ref: BBC Royal Charter. HM Government, December 2016, p5

ensure that S4C receives greater prominence in Wales on Electronic Programme Guides and smart TV applications'.<sup>12</sup>

31. Of specific concern is Virgin Media's service provision in Wales. BBC1 Wales appears on channel 101, BBC2 Wales appears on channel 102, ITV Wales appears on channel 103 however channel 104 is occupied by Channel 4. S4C finds itself completely isolated on channel 166 – thus invisible to viewers channel hopping PSB's service. Given Virgin Media's significant growth and aggressive marketing practices in its cabled households TAC calls on the Committee to urge Ofcom to address this matter.
32. Although online viewing figures are growing, there is still a need for S4C to retain its presence as a free-to-air terrestrial network. As Ian Jones told the Welsh Affairs Committee: "at the moment if S4C was completely online, we would lose 60% to 65% of our audience straight away."<sup>13</sup> Linear TV viewing is still strong, with 91% of the UK population watching live TV each week.<sup>14</sup> With the demographic of Welsh speakers includes a fair amount of older people who are not naturally given to view TV online. This contrasts with a Channel like BBC3 which, with its younger demographic, was arguably a more logical service to make online-only.

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<sup>12</sup> The Big Picture: The Committee's Initial Views on Broadcasting in Wales. National Assembly for Wales – Culture, Welsh Language and Communications Committee, February 2017, p25

<sup>13</sup> Oral evidence: Broadcasting in Wales follow-up: S4C funding – 30 Jan 2017. Welsh Affairs Committee, HC 981, published Feb 2017, p8, Q19

<sup>14</sup> Communications Market Report 2016. Ofcom, August 2016, p16