



Department for
Digital, Culture
Media & Sport

Building an S4C for the future

An independent review

Euryn Ogwen Williams
December 2017



Building an S4C for the future

Presented to Parliament
by the Secretary of State for Digital, Culture, Media and Sport
by Command of Her Majesty

March 2018



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Foreword

To the Secretary of State for Digital, Culture, Media and Sport

You asked me to conduct an independent review of S4C which examines its remit, funding methods and governance. I am pleased to submit my final report to government which sets out my findings and recommendations.

S4C is the world's only Welsh language broadcaster. It occupies a unique position in the UK broadcasting landscape and is a driving force in promoting the Welsh language.

This review takes place at an exciting and challenging time for broadcasting. The sector is going through unprecedented change – choice dominates the market, with more high quality content available from a greater number of providers on an increasing variety of platforms. Established broadcasters like S4C have strong brands and a wealth of experience, but high quality, big budget global content from providers like Netflix presents a challenge for all broadcasters. Public service broadcasters need to work together to survive – embracing the enormous opportunities for partnership and collaboration, and harnessing the potential of digital innovation in this new era for broadcasting.

Public service broadcasting is the cornerstone of the UK media landscape. It plays a crucial role to ensure that UK audiences can access content across a wide range of different genres – from news and current affairs to children's programmes and documentaries. Ensuring that public service broadcasters can adapt and continue to remain relevant is a key challenge.

As the only Welsh language broadcaster S4C is perhaps the best example of why we must cherish and safeguard public service broadcasting for the future.

The Welsh language is one of the oldest living languages in Europe and a significant driving force of Welsh and British identity and consciousness in the 21st century. It is a language of daily discourse and debate, contemporary literature, business, sport and national celebration; the language of urban and rural Wales across generations of families. Core to S4C's unique public purpose is the vital role it plays in sustaining and promoting the Welsh language – reflecting the diverse cultures that use Welsh through the provision of high quality accessible content.

S4C's existence ensures that Welsh language content is not relegated to the dark corners of the broadcasting schedule. But the heart of S4C's challenge now is to attract new viewers outside traditional Welsh speaking television audiences – promoting diversity and plurality through the idea that the language belongs to everyone in Wales, whether they speak a lot, a little or none at all. This ambition is not just for S4C as a broadcaster. As the main funder and distributor of Welsh language content, this aim must be embedded throughout S4C's commissioning supply chain.

Underpinning this is S4C's status as an independent public service broadcaster. This review seeks to safeguard this independence for the future. A lot has changed since S4C began broadcasting in 1982, and we need to ask these questions now to ensure that S4C is in a stable position to continue to serve Welsh speaking audiences and attract new viewers.

This independent review considers three key issues, as set out in the terms of reference.

1. S4C's public service remit and its ability to deliver high quality content
2. Guaranteeing an S4C for the future through its funding methods
3. Securing an independent and effective S4C through its governance structure

I have spoken to and consulted a wide range of stakeholders – from S4C and its partners to schoolchildren and individual viewers. I was supported by officials from the Department for Digital, Culture, Media and Sport: Amy Forbes (as Secretary to the Review), Maria Alexandri and Ffion Williams. I am extremely grateful to them for their hard work and insight. Though I received this assistance, I emphasise that I take full responsibility for this review.

In this review I make a series of recommendations to address the terms of reference set by government. I hope you will agree these recommendations will better equip S4C for the modern age.

Euryn Ogwen Williams

Chair, S4C independent review

Executive summary

In August 2017 the government appointed Eyrwn Ogwen Williams as chair of the independent review of S4C. The government established this independent review to ensure that S4C continues to play a vital role as a public service broadcaster and has a strong and successful future delivering high quality content for Welsh speaking audiences.

The chair conducted an in-depth three month review which examined S4C's public service remit, its funding methods and governance structures. His findings and recommendations are set out in three chapters.

Chapter 1: Delivering high quality content and serving Welsh speaking audiences

The first chapter looks at S4C's current public service remit and considers whether changes to the remit, and how S4C delivers it, could help increase the organisation's public value.

The review concludes that S4C could and should do more to deliver greater public value. As a public service broadcaster S4C needs to adapt to the changing broadcasting environment, and must use new digital and online services to broaden its reach and appeal, not just in Wales but in the UK and abroad. Modernising the remit would allow S4C to prioritise digital innovation alongside linear broadcast as its strategic priority, including through the development of a digital hub with digital content production capability. But beyond simply changing the remit requirements, S4C needs to innovate and take more risks to most effectively deliver its remit. As part of this, S4C should invest more energy in developing partnerships: with the BBC, with the independent sector, and with stakeholders across Wales to take a more active role in wider initiatives to promote the Welsh language.

Chapter 2: Guaranteeing an S4C for the future

Chapter 2 considers S4C's current methods of funding. As per the terms of reference, the review does not consider levels of funding for S4C.

Ongoing debates about sufficient levels of funding are a distraction from the most important issue – ensuring S4C's funding is on a stable and transparent footing. S4C is funded primarily through the licence fee with a small additional grant-in-aid from DCMS. S4C's licence fee funding is fixed until 2021/22 – however, as with all government funding, this grant-in-aid funding for S4C is subject to change. This lack of certainty on the grant-in-aid has created a disproportionate level of anxiety and uncertainty among S4C and stakeholders that goes well beyond the impact of the actual sums involved. The only way to achieve funding stability for S4C is to provide S4C's public funding entirely through the licence fee. S4C's funding decisions should be aligned with the BBC's licence fee funding settlement from 2022/23 onwards. The government should review S4C funding as part of government's regular licence fee funding settlement negotiations with the BBC. This would give S4C the same funding stability and certainty as the BBC, giving it the freedom to make the creative and commercial choices it needs to thrive and succeed. In addition to this, as the recipient of substantial public funding, S4C should seek to deliver greater public value where possible, using its scale and resources to explore commercial avenues, invest and maximise commercial income. This should not be viewed as a criticism of S4C's current work but a recognition of the need for the organisation to respond to a fast-changing media landscape.

Chapter 3: Securing an independent and effective S4C

The final chapter looks at how to ensure S4C is flexible, forward looking, and properly and proportionately held accountable for delivering public value as the Welsh language public service broadcaster.

S4C needs to be bold and take measured risks to reach new audiences. It needs clear vision and leadership, which the review concludes can only be delivered by replacing the S4C Authority with a unitary board that includes executive management as well as non-executive members. Consideration should also be given to how external accountability and challenge could be strengthened: in terms of providing clarity on current regulatory and governance arrangements for S4C and whether it would be appropriate to appoint the National Audit Office as S4C's external auditor to improve transparency and parliamentary oversight on how S4C spends public money.

Table of recommendations

Recommendation
Chapter 1: Delivering high quality content and serving Welsh speaking audiences
<p>Recommendation 1</p> <p>The government should update S4C's public service remit to include digital and online services and remove the current geographical broadcasting restrictions. This will allow S4C to broaden its reach and offer its content on a range of new platforms in the UK and beyond.</p>
<p>Recommendation 2</p> <p>S4C should establish an in-house digital hub to develop and improve S4C's digital footprint and form the basis of a Welsh language digital cluster.</p>
<p>Recommendation 3</p> <p>S4C should establish a language partnership with the Welsh Government and others to help deliver the Welsh Government's commitment to reach 1 million Welsh language speakers by 2050.</p>
Chapter 2: Guaranteeing an S4C for the future
<p>Recommendation 4</p> <p>S4C's public funding should be provided entirely through the licence fee from 2022/23 onwards, with all future funding decisions made as part of the BBC licence fee funding settlement.</p>
<p>Recommendation 5</p> <p>The government should consider amending current approval requirements to give S4C greater freedom to invest and generate commercial revenue.</p>
Chapter 3: Securing an independent and effective S4C
<p>Recommendation 6</p> <p>The S4C Authority should be replaced with a new unitary board comprising executive and non-executive directors.</p>
<p>Recommendation 7</p> <p>The government should consider whether S4C's current financial audit arrangements are suitable, including whether it would be appropriate to appoint the Comptroller and Auditor General as S4C's external auditor.</p>

Chapter 1: Delivering high quality content and serving Welsh speaking audiences

S4C: the Welsh language broadcaster

“Without a doubt, S4C is one of the essential cornerstones of our culture in Wales. Since its establishment in 1982, its value in terms of strengthening our identity and culture, as well as promoting the Welsh language has undoubtedly been valuable and far-reaching.”

-- The National Library of Wales

S4C is a Welsh language public service broadcaster which provides a wide range of content in Welsh (including sport, drama, factual and entertainment) across traditional and digital platforms. S4C defines itself as a publisher-broadcaster which does not produce its own programmes but commissions all its content from the independent production sector, mainly in Wales.

S4C was established by the Broadcasting Acts of 1980 and 1981, and began broadcasting in Wales in 1982 – making it the third oldest UK broadcaster (after the BBC and ITV, and launching one day before Channel 4). It was built on a strong idea that developed in Wales over the previous decade that the Welsh language should have its own media presence to protect and develop the language in a more accessible and inclusive way.

In 1982 the media landscape was very different from today. There were only four analogue television channels and S4C shared its analogue terrestrial slot with Channel 4, who broadcast to the rest of the UK outside Wales.

Media consumption and viewing habits have changed enormously over the last 35 years. Huge progress in technological innovation has changed the way people access and consume content. Traditional linear broadcasters continue to dominate the landscape but the rise of digital is relentless and disruptive – the rapid growth of video on demand and online services, spectrum glut and mobile devices has changed consumption habits, and broadened viewer expectations and the kind of content consumers want (for example, short form and interactive content).

Public service remit and impact

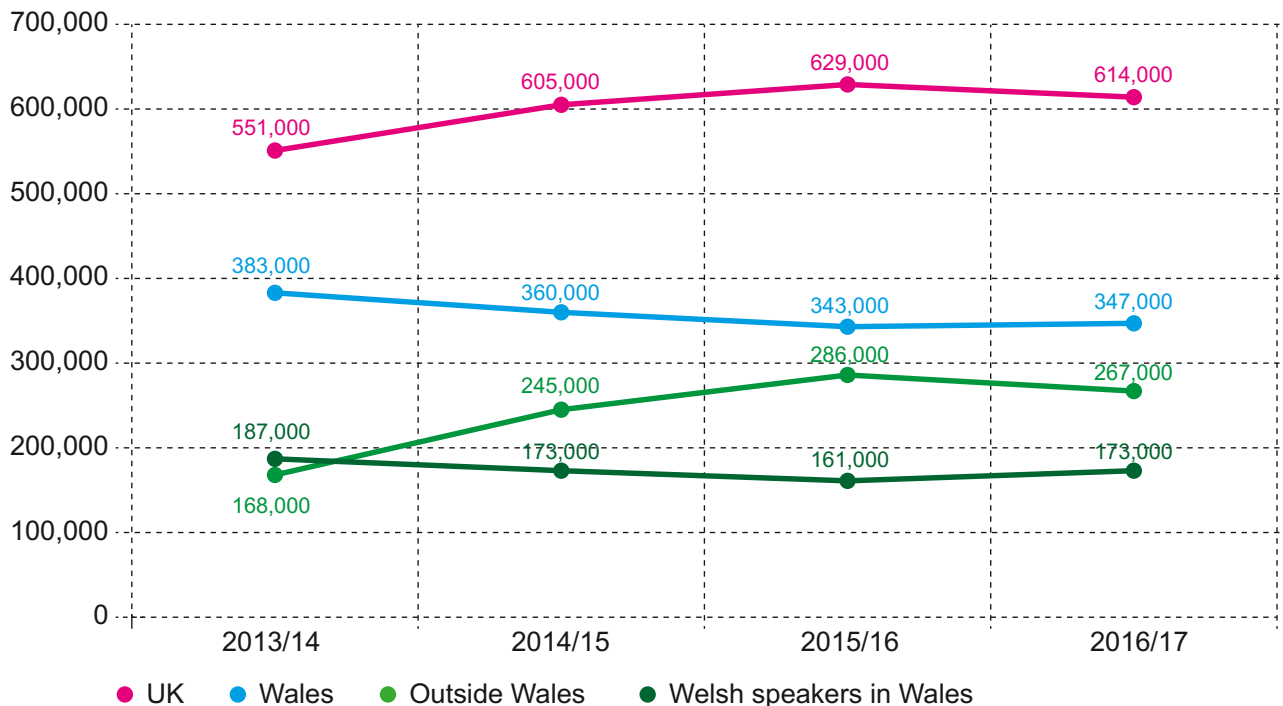
S4C’s public service remit is defined in primary legislation and requires S4C to provide ‘television programme services of high quality with a view to their being available for reception wholly or mainly by members of the public in Wales’.¹ S4C is also subject to quotas set by Ofcom regarding news

¹ Section 204(2) Part 3 and Schedule 12, Part 2 paragraph 3, Communication Act 2003.

and current affairs, original production, independent production, European programmes, European independents, recent works, subtitling, audio description and signing (as set out in detail in chapter 3).²

In 2016/17 S4C spent £67 million on Welsh language content. In terms of its reach, there was a slight decrease in average weekly reach in the UK and outside Wales in 2016/17, while numbers increased in Wales and among Welsh speakers in Wales (see figure 1 below).³

Figure 1: Average weekly television reach of S4C since 2013/14⁴



Remit reform

“S4C cannot continue solely as a television channel. Rather, the Welsh language needs an independent national broadcaster that operates across the different broadcasting platforms.”

-- Mentrau Iaith Cymru

A number of review contributors suggested the public service remit set out in legislation is no longer fit for purpose because it is not flexible enough to take into account modern consumption trends and could unnecessarily restrict S4C in delivering content in a way that meets audience demand. This view is supported by the National Assembly for Wales’ Culture, Welsh Language and Communications Committee recent report on the future of S4C.⁵

² Ofcom (2017), Annual PSB Nations & Regions Compliance Report.

³ S4C Annual Report and Accounts 2016/17.

⁴ S4C Annual Report and Accounts 2016/17.

⁵ National Assembly for Wales Culture, Welsh Language and Communications Committee (2017), *Future of S4C: Outside the Box*.

Specifically I received suggestions that two aspects of S4C's remit do not reflect current S4C activities or the changing broadcasting landscape.

1. Referencing only 'television programme services' does not take into account providing content through digital and online services.
2. Requiring S4C to provide programmes 'for reception wholly or mainly by members of the public in Wales' does not take into account Welsh speaking audiences outside Wales, or the fact that access to digital content cannot be restricted to Wales only.

What do S4C viewers think?

As part of the review I attended **two S4C viewer events** in Llangefni and Abergavenny to hear their views on S4C.⁶ These sessions provided valuable insight on what people think of S4C programmes and how they consume content. It was interesting to hear that people watch an enormous variety of Welsh language content. Cyw for children was particularly praised, while younger viewers felt there is a lack of suitable programmes for them (although Hansh was popular). Most viewers I spoke to used video on demand and social media alongside television to watch programmes.

I also **visited schools in Anglesey and Cardiff** and spoke to 12-15 year olds – the first digital native generation. Our discussions chimed perfectly with the findings in Ofcom's Children and Parents: Media Use and Attitudes Survey 2017⁷ which looked at a sample of 500 12-15 year olds in the UK. Ofcom found that 83% had their own smartphone and 55% their own tablet. 91% watch TV on a television for nearly 14.5 hours a week while 68% watch TV on other devices. 99% go online for nearly 21 hours per week and 90% use YouTube. Their mobile phone is the device they would miss most. This is the direction of travel for media usage in the next decade and confirms the view that linear television as well as digital platforms will be essential for S4C in the years ahead.

We also **conducted an online and postal survey of S4C viewers** (in association with S4C) to look at customer satisfaction and viewing habits.⁸ I think these findings well illustrate changing audience habits and perceptions, and the need for S4C to improve its digital and online offer.

- **23%** of S4C viewers watch at least 1 hour of video on demand or online content each day, while only **6%** watch at least 1 hour of S4C content via video on demand or online each day.
- **34%** of S4C viewers watch S4C short-form content on BBC iPlayer at least once a month, and **19%** watch S4C short-form content on Clic (the S4C equivalent of BBC iPlayer).

S4C needs the freedom to best serve Welsh speaking audiences in an increasingly competitive and diverse broadcasting market. And as a modern public service broadcaster, it must use new digital and online services to broaden its reach and appeal. While S4C has taken some steps to adapt to market and technological changes, I agree with those who argue that an outdated remit has discouraged it from fully renewing and re-imagining itself, innovating and taking risks in a digital environment. Modernising the remit would remove this distraction and allow S4C to readjust its focus to prioritise digital innovation alongside linear broadcast as its strategic priority.

⁶ The Llangefni event took place on 26 October 2017 and 72 people attended. The Abergavenny event took place on 7 November 2017 and 65 people attended.

⁷ Ofcom (2017), *Children and Parents: Media Use and Attitudes Report*.

⁸ Panel Cyfryngau Cymru – Wales Media Panel, run by TRP Research, surveyed a total of 462 S4C viewers by online and post in September and October 2017.

Moreover, at a time when 43% of weekly S4C viewers are outside Wales,⁹ S4C should also be able to provide content without the current geographical restrictions to provide programmes ‘wholly or mainly’ to people in Wales.

As a result I have concluded the government should update the remit to allow S4C to make its content available on a wider range of platforms – in Wales, across the UK and abroad. This also supports S4C’s proposal in its recent vision document, *Pushing the Boundaries*.¹⁰

It is worth noting that other public service broadcasters’ remits have been amended over time to accommodate technological innovation. For example, the government amended Channel 4’s remit through the Digital Economy Act 2010 to encourage it to broadcast public service content across a broader range of platforms, including video on demand and digital services.¹¹ I believe it is now the time to ensure that S4C’s remit is also brought up to date. Given the speed of market and technological changes I would also suggest the government keeps S4C’s public service remit under regular review.

Recommendation 1

The government should update S4C’s public service remit to include digital and online services and remove the current geographical broadcasting restrictions. This will allow S4C to broaden its reach and offer its content on a range of new platforms in the UK and beyond.

Expanding digital capacity

“In addition to investing in programmes, S4C must continue to explore, experiment, and invest in new platforms to ensure that Welsh content is available to the Welsh audience on the latest platforms, thereby competing with other broadcasters on the same terms”.

-- Dr Elain Price, Non Vaughan Williams and Iwan Williams
Department of Communications and Media, Swansea University

There is clearly a strong appetite for Welsh language content online and S4C has taken steps to respond to changing demand – for example, establishing a video on demand service in 2006, followed by the S4C Clic smartphone and tablet app in 2011; working with the BBC to show S4C content on BBC iPlayer; working with Amazon Fire and Samsung to integrate an S4C app; launching on YouView; and producing tailored content on social media.

As a result S4C’s online presence has grown significantly in recent years. In 2016/17 there were 18 million viewing sessions of S4C content on Facebook and Twitter, and 7.6 million online viewing sessions of S4C content across S4C Online and BBC iPlayer.¹²

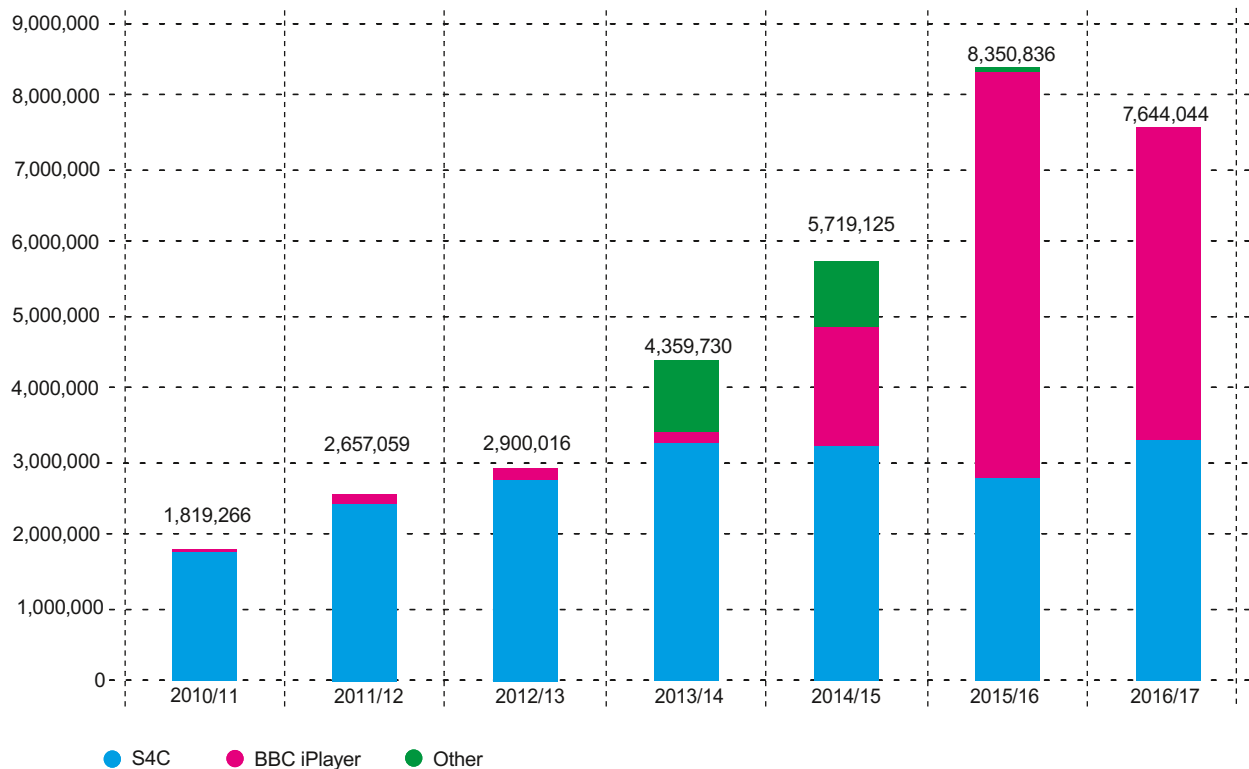
⁹ S4C Annual Report and Accounts 2016/17.

¹⁰ S4C (2017), *Pushing the Boundaries*.

¹¹ Section 22 Digital Economy Act 2010.

¹² S4C Annual Report and Accounts 2016/17.

Figure 2: Viewing sessions for S4C programmes on S4C Online and BBC iPlayer¹³



But S4C could and should be doing more. Review contributors suggested that S4C’s current digital marketing and distribution strategy is inconsistent and lacks direction. Digital should be at the heart of everything S4C does. It should be fully embedded across the business, with S4C working alongside its independent production partners to add value. A modernised remit (as set out in recommendation 1) would give S4C greater freedom to innovate and compete, and to respond quickly and effectively to changing technology and market trends.

S4C’s smaller scale (relative to other public service broadcasters) means it has the flexibility to prioritise digital, and the quick turnaround and iterative nature of digital content creation is well suited to an in-house model. Establishing an in-house digital hub could therefore provide an opportunity for S4C to improve its digital footprint and help drive efficiencies. The digital hub should lead S4C strategy on digital content and distribution, exploring new services and platforms for a variety of audiences including children and learners.

S4C does not currently produce any in-house content – neither linear nor digital – and there is nothing to restrict S4C from developing capacity to produce in-house content. The mature independent sector and ITV Wales provide a range of programmes for S4C’s linear schedule – and as S4C’s economic and creative impact in Wales is based on this outsourcing, it would be disruptive and likely expensive to develop linear in-house content capacity.

¹³ S4C Annual Report and Accounts 2016/17.

Developing in-house digital content production would not have the same issues, but would be a bold change. In particular this would need to be developed with careful consideration of the impact on the independent sector. However digital production and development is best stimulated in clusters and S4C's role should be the focus and catalyst for Welsh language producers and developers all over Wales. Ultimately an in-house digital hub could support the provision of high quality Welsh language content across all platforms, particularly if linked to government regional hub projects, such as the Swansea Bay City Region Deal, the North Wales Economic Ambition Board or the government's proposed Cardiff regional tech hub to support the growth of digital clusters.

Protecting Welsh content for future generations

The National Library of Wales told me that S4C content plays an important role in defining Welsh national identity and culture and promoting the Welsh language.

The National Library is currently undergoing an ambitious project to digitise the BBC Wales archive to be available in publicly accessible digital hubs in Carmarthen, Wrexham and Cardiff. Making content more accessible is a key driver to promoting the language and I would encourage S4C and the National Library to work with the Welsh Government to explore how S4C Welsh language content can be digitised and made available to the public.

Recommendation 2

S4C should establish an in-house digital hub to develop and improve S4C's digital footprint and form the basis of a Welsh language digital cluster.

Delivering the new remit

"I think S4C must take a few risks."

-- Elfed Roberts
Chief executive officer, National Eisteddfod of Wales

Modernising S4C's remit and building in-house digital capability gives S4C the freedom to make strategic choices about the direction of its services and the content it commissions and distributes.

S4C has invested a lot of its energy since 2010 to protect its standing as an institution and many review contributors suggested that this had been at the expense of participating with others on initiatives to promote the Welsh language at a time of rapid change. S4C must be able to respond quickly, not fear failure, take risks with small sums of money, and be less hierarchical and prescriptive in its processes. Its current approach has not prevented the successful development of its presence on social media, but it must now do more and take the next step to engage with new audiences.

Some review contributors argue that updating S4C's remit would require an increase in its funding. I do not agree with this assessment. As suggested by a number of stakeholders, to deliver its new remit S4C needs to change its strategic outlook and approach, rather than receive additional funding. Harnessing the opportunities of digital, alongside leveraging the benefits from new and established partnerships

and maximising commercial income, are central to this. (While levels of funding are outside the scope of this review, chapter 3 considers funding methods in more depth.)

Discoverability: Search and access

Some review contributors raised concerns about S4C’s prominence on electronic programme guides (EPGs) and smart TVs. There are no simple solutions to this issue, and indeed the Digital Economy Act 2017 placed a duty on Ofcom to undertake a review into EPG prominence regime by 2020. However I think the reforms outlined in my first and second recommendations will help equip S4C with the tools it needs to turn this threat into an opportunity. With a modernised remit and new digital focus, S4C can explore ways to improve its discoverability and make its content more accessible to a wide range of audiences across different platforms. Its strength lies in its unique and simple proposition – Welsh language content – and I would encourage S4C to explore all avenues to improve its prominence and visibility.

Partnerships

“A confident and independent S4C, free to work across all the digital media with a clear vision, new energy and in a strategic partnership with other organisations, including the Welsh Government, would have a huge impact on the future of the Welsh language and the target of a million speakers by 2050.”

-- Professor Ruth McElroy and Hywel Wiliam
Faculty of Creative Industries, University of South Wales

A dominant theme from the vast majority of review contributors is that S4C must invest more in partnership – strengthening its current relationships and building new ones. Many stakeholders pointed to the need for S4C to alter its cultural outlook to recognise that partnership is not inherently a threat to independence – and some went so far as to criticise S4C for missing opportunities to work effectively with others. S4C straddles two areas: broadcasting and digital content, and the Welsh language. In both there are enormous pools of knowledge, expertise and experience, and opportunities for S4C to build profound and energetic partnerships for the benefit of all.

This section considers S4C’s partnerships, how these have been working and whether there is scope to strengthen them further.

S4C’s relationship with the BBC

S4C’s most important current partnership is with the BBC. S4C currently receives £74.5 million from the licence fee each year which is distributed by the BBC. This level is specified in the BBC Framework Agreement and guaranteed until 2021/22.¹⁴ The Framework Agreement sets out that S4C and the BBC have a shared objective: ‘the BBC and S4C must have the shared aim of working together to observe and safeguard the independence of both’.

¹⁴ BBC Framework Agreement: An Agreement Between Her Majesty’s Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation (2017).

A strong partnership is good for both broadcasters, giving them the ability to share resources and expertise to enhance delivery. The BBC and S4C can drive efficiencies and value for money through collaboration, and work together to maximise prominence and consolidate their influence in the global market.

In November 2017, S4C and the BBC published a new Partnership, Funding and Accountability Agreement,¹⁵ replacing the previous 2013-17 operating agreement. The new partnership agreement is a good example of effective collaboration: both broadcasters operate in a competitive market but acknowledge that in many areas they can deliver greater value for licence fee payers by working together.

The agreement sets out both broadcasters' commitment to working together to deliver high quality public services for Welsh speaking audiences for the duration of the new BBC Royal Charter until 2028. It also confirms the continuation of the joint Partnership Board between BBC Cymru Wales and S4C executives, which aims to identify and develop opportunities for efficiencies and strategic and creative collaboration between the two broadcasters, and includes formal arrangements to ensure both organisations are able to scrutinise how the partnership is working.

This unique strategic and creative partnership spans three principal areas:

a. S4C funding from the licence fee

As the recipient of licence fee funding directly from the BBC, the agreement sets out the accountability mechanisms for the BBC to ensure that its funding is being used properly and efficiently in the provision and broadcasting or other distribution of S4C services. This includes S4C submitting a financial assurance report to the BBC every 6 months.

b. Creative and editorial partnership

The BBC is required to provide S4C – free of charge – with at least 10 hours of television programmes in Welsh for broadcast on S4C. The agreement sets out how the BBC and S4C will work together to agree an annual programme plan for content. The BBC and S4C also jointly commission drama and factual content (such as *Y Gwyll* and *Un Bore Mercher*) and have worked together to jointly acquire the rights to sporting events like Pro 14 rugby and Six Nations Rugby with ITV.

A major element of the creative partnership is the BBC's provision of news content for broadcast on S4C. I am aware of two longstanding concerns about the quality of news on S4C. Firstly, there are concerns about a lack of plurality in Welsh language news content because it is all produced by the BBC (and broadcast on BBC Cymru Fyw, BBC Radio Cymru or S4C). Secondly, I also heard concerns about S4C news not being distinctive enough – for example, one review contributor said “it was BBC news on S4C”. Comparisons were also made with Channel 4 and ITV News, both of which are clearly very distinctive even though both are produced by ITN.

No one I spoke to questioned the accuracy or veracity of S4C news content, but the BBC and S4C should consider how to address these concerns as part of their editorial discussions (while recognising S4C's editorial independence). It is worth noting that distinctiveness and serving the diverse communities of UK nations and regions are key public purposes for the BBC in its new Royal Charter so I would hope the BBC engages with this issue positively.

¹⁵ Partnership, Funding and Accountability Agreement between the BBC and S4C (2017).

c. Broader operational partnership

The new agreement guarantees that S4C content will continue to be accessible on BBC iPlayer until 2028 for the duration of the agreement, enabling S4C to continue reaching new audiences. S4C and the BBC have also agreed to co-locate and share technical services in the BBC's new broadcast centre in Cardiff from 2019.

Relationship with the independent production sector

Alongside the BBC, S4C has a longstanding partnership with the independent production sector in Wales. A dynamic independent production sector is vital for S4C's future. The sector produces high quality award-winning programmes that helps S4C compete for audiences in a global market, while providing an essential connection between S4C and the Welsh speaking community.

When S4C was created it had a statutory duty to acquire its purchased programmes on commercial terms, so the number of small production companies across Wales grew rapidly in the first few years of S4C's existence.¹⁶ This duty sparked a new industry which became the eyes and ears of S4C in many Welsh speaking communities and extended S4C's economic impact in different parts of Wales. Indeed it is widely accepted across the Welsh creative industries that S4C investment was the most important factor in establishing Wales as a major centre for independent television and film production. The sector remains an important driver of employment in many parts of Wales and helps S4C continue to broadcast content that feels local, and the relationship is central to S4C's significant economic impact across Wales and the UK – independent research commissioned by S4C shows that every £1 spent by S4C creates a total value of £2.09.¹⁷

The Welsh production sector has changed hugely over the years as companies consolidate and move into different markets. These structural changes in the sector have helped stabilise the industry and sustained S4C output, but many review contributors told me that S4C's reliance on the bigger players has marginalised smaller production companies who feel ignored by S4C in favour of larger, more powerful companies.

S4C used to work to a 4-5 year production commissioning cycle which some review contributors argued in practice discriminated against smaller companies that did not have the capacity to work to these long timescales. While this strategy can deliver better value for money in some areas, S4C must look at ways to address this disparity and adopt a more inclusive commissioning strategy that effectively leverages the wealth of new ideas, skills and talent from smaller producers as well as the dominant players.

Alongside this is the role of TAC as the representative body for the Welsh TV production sector. S4C's relationship with TAC should be at the heart of its relationship with the independent production sector, yet smaller producers told me that S4C's direct engagement with the big producers has increasingly sidelined TAC and reduced its ability to effectively represent all its members. Both parties need to be more inclusive and play their part in nurturing and celebrating new talent and ideas, as a strong S4C-TAC partnership would likely produce even higher quality content, with the potential to deliver demonstrable social, economic and cultural value in Wales. Both S4C and TAC must take strong proactive steps to re-earn the trust of smaller producers, and re-establish TAC's role as an effective broker between S4C and the Welsh production community.

¹⁶ Section 48 (3) Broadcasting Act 1981 (since repealed (3) and replaced with section 58 Broadcasting Act 1990).

¹⁷ S4C Annual Report and Accounts 2016/17.

More broadly, many independent production companies said that S4C micromanages the production commissioning process which leads to duplication, frustration and higher costs. Elsewhere, small digital enterprises suggested there is a lack of transparency on how they can bid to produce S4C digital content. If it is to be a better partner, S4C should move away from rigid hierarchies and be more transparent and trusting. I would also hope the new digital hub recommended above will encourage S4C to think more about its digital offer and how it can establish stronger partnerships with other digital producers.

Alongside improving its existing relationships, S4C should explore other ways it can support the Welsh creative industries. An important area ripe for development is S4C's relationship with writers. A group of leading Welsh writers shared their concerns that the S4C ecosystem which nurtured and developed new Welsh writers over the years no longer exists. In the analogue world S4C was the main catalyst for professional Welsh creative talent. In the digital world, it should consider adapting its approach by being an active participant in partnerships with other organisations, particularly the Arts Council of Wales, Theatr Cymru, Welsh Books Council, Literature Wales, Radio Cymru and others on a range of different projects to develop creative writing talent for the future within a framework of rights that are appropriate in a digital world.

Promoting the Welsh language

“S4C has a key role to play in terms of promoting and developing the Welsh language to contribute to the Welsh Government’s goal of having a million Welsh speakers by 2050.”

-- Y Coleg Cymraeg Cenedlaethol
(National Welsh College)

Wales is a bilingual country and the Welsh language has official status in Wales. To support this, in 2016 the Welsh Government committed to achieve 1 million Welsh speakers by 2050.¹⁸ An important part of achieving this commitment rests with the Local Mentrau Iaith (Language Initiatives) – partnerships of local voluntary organisations, educational institutions and businesses established across Wales and supported by the Welsh Government and local government to promote the Welsh language.

S4C plays a vital role in reflecting Welsh culture and society and promoting the Welsh language, and this review is the right place to consider how S4C fits into the Welsh Government's language policy.

¹⁸ Welsh Government (2017) Cymraeg 2050: Welsh Language Strategy.

S4C's influence on the Welsh language

A four year research project at Bangor University looked at the impact of watching Cyw (S4C's service for children) on the Welsh language awareness of 2-5 year olds from non-Welsh speaking homes.

Researchers found that children who watched Cyw performed better in Welsh language tests, increased their knowledge of Welsh vocabulary and could even recognise some language patterns. They recommended that Welsh language television programmes could be incorporated into the curriculum and wider strategies to promote the Welsh language.¹⁹

In our online and postal survey of S4C viewers, I also found firm backing for the idea that S4C is important to the Welsh language:

- 95% of S4C viewers agree or strongly agree that S4C plays an important part in keeping Welsh as a relevant and modern language.
- 94% of S4C viewers agree or strongly agree that S4C plays important part in the development of Welsh identity and culture.

The clear alignment of interests between the Welsh Government's initiative and S4C presents a significant opportunity to explore ways that S4C can work with others to advance the Welsh language. There are a number of national organisations united by a common goal to promote the Welsh language. S4C clearly has a strong role to play in this space and should show leadership by establishing a partnership of prominent organisations who can leverage their scale to pool resources and aspirations to make a significant contribution to achieving 1 million speakers by 2050.

S4C already has formal partnerships with a number of leading organisations such as BBC Radio Cymru, Arts Council of Wales, Yr Urdd, Into Film and Theatr Genedlaethol Cymru, but it should seek to strengthen these and build others to catalyse the network effects of joint action. This partnership with the Welsh Government would structurally embed S4C and others in delivering the language mission – and would strengthen S4C's relationship with its audience as well as providing opportunities to explore potential efficiencies from improved collaboration.

Firmly embedding S4C as a central component of the Welsh Government's language mission had overwhelming support from most stakeholders. The partnership should be established by the end of 2018, working closely with the Welsh Government on ambitious national projects. S4C, the Welsh Government and other organisations should pool their resources to deliver effective projects and interventions to promote the language. This could include coordinating activities and events to raise the profile of the language, and working together on campaigns that promote the Welsh language to new audiences.

¹⁹ Bangor University (2017), Exploring minority language input sources as means of supporting the early development of second language vocabulary and grammar, 2011-2015. Available at: <https://www.cambridge.org/core/journals/applied-psycholinguistics/article/exploring-minority-language-input-sources-as-means-of-supporting-the-early-development-of-second-language-vocabulary-and-grammar/FE8145EF906B547A53127874FCB42D95>

“S4C has an important role, not only as an entertainment provider, as a champion for discussion and as a source of information, but also as a mirror of the development of the nation and the people of Wales.”

-- Mudiad Meithrin
(Nursery Movement)

It will be important to see this partnership as a long term project which addresses unmet needs – for example, S4C and BBC Radio Cymru should not expect to measure its success with immediate rises in audience figures. This will only work if there is commitment from the highest levels of each organisation to the partnership’s goals, and acceptance of the principle that together they are stronger. It will not be a small undertaking but the potential benefits are huge if we can safeguard the Welsh language for generations to come.

Of course this partnership must do nothing to undermine S4C’s status and current obligations as an independent public service broadcaster, nor the UK government’s responsibility for broadcasting.

A small minority of review contributors suggested that responsibility for S4C should be devolved to the Welsh Government. The UK government position is clear that broadcasting is a reserved matter and will continue to be regulated at a UK level. This long-debated issue was carefully considered in the Silk Commission’s 2014 report on devolution²⁰ and the UK government confirmed its current position in the St. David’s Day Agreement 2015.

This is the right approach. It is my view that calls for devolving responsibility for S4C are a distraction from the crucial strategic priorities S4C should be focusing on, not just to serve audiences in Wales, but Welsh speaking audiences in the UK and abroad.

Recommendation 3

S4C should establish a language partnership with the Welsh Government and others to help deliver the Welsh Government’s commitment to reach 1 million Welsh language speakers by 2050.

²⁰ Paul Silk (2012 & 2014), Commission on Devolution in Wales (Part I & II).

Using Welsh in voice recognition

Voice recognition is becoming increasingly prevalent in the broadcast and digital content space. Content providers and platforms like Amazon, Google, Apple, Microsoft and Samsung have embedded virtual assistants to help users navigate their systems. As this technology embeds, consumers will come to expect voice recognition as the norm for navigation.

As part of the review I spoke to a group of Welsh speaking teenagers about how they consume content. When asked which language they would expect to use in 10 years' time to find content they unanimously said "Welsh, of course". This new generation of Welsh speakers have expectations about being able to engage with content in both Welsh and English.

Welsh is already available as a written language option on Apple, Google and Microsoft devices and applications, but steps must be taken to ensure that all platforms and providers offer a Welsh language option. S4C should work closely with the Welsh Government and others to identify opportunities for Welsh to become one of the languages of choice in voice recognition. Action should be taken now to ensure that Welsh is not left behind as technology evolves.

Chapter 2: Guaranteeing an S4C for the future

“S4C and its suppliers cannot continue without budget certainty and a funding model that is clear and sustainable.”

-- Rondo Media

Scope of the review

Before expanding on my findings and subsequent recommendations, I think it is necessary to be clear that the review’s terms of reference were explicit in asking me to examine S4C’s current funding methods. This review will not consider levels of funding for S4C. This is clearly the right approach as it is for the Secretary of State to determine that S4C’s funding is sufficient and adequate to deliver its remit.

Despite funding levels being clearly out of scope of the review, some contributors argued that S4C funding should return to pre-2010 levels, while others thought that S4C could receive less funding if it focused on digital content. My only comment on this issue is that I agree with the majority of contributors who said that actually the most important thing for S4C is funding stability and transparency.

S4C funding methods

For the first 10 years of its existence S4C was solely funded by the Independent Broadcasting Authority (IBA), based on a funding formula agreed by the IBA, S4C, Channel 4, ITV and the Home Office. The formula was based on the net advertising revenue of the ITV franchises that sold advertising for Channel 4 and S4C. Though the level of funding varied from year to year as advertising revenue changed, there was enough stability for S4C to forward plan. The government’s role was to adjudicate between S4C and the IBA if a funding settlement could not be agreed, but it was never required to exercise this function.

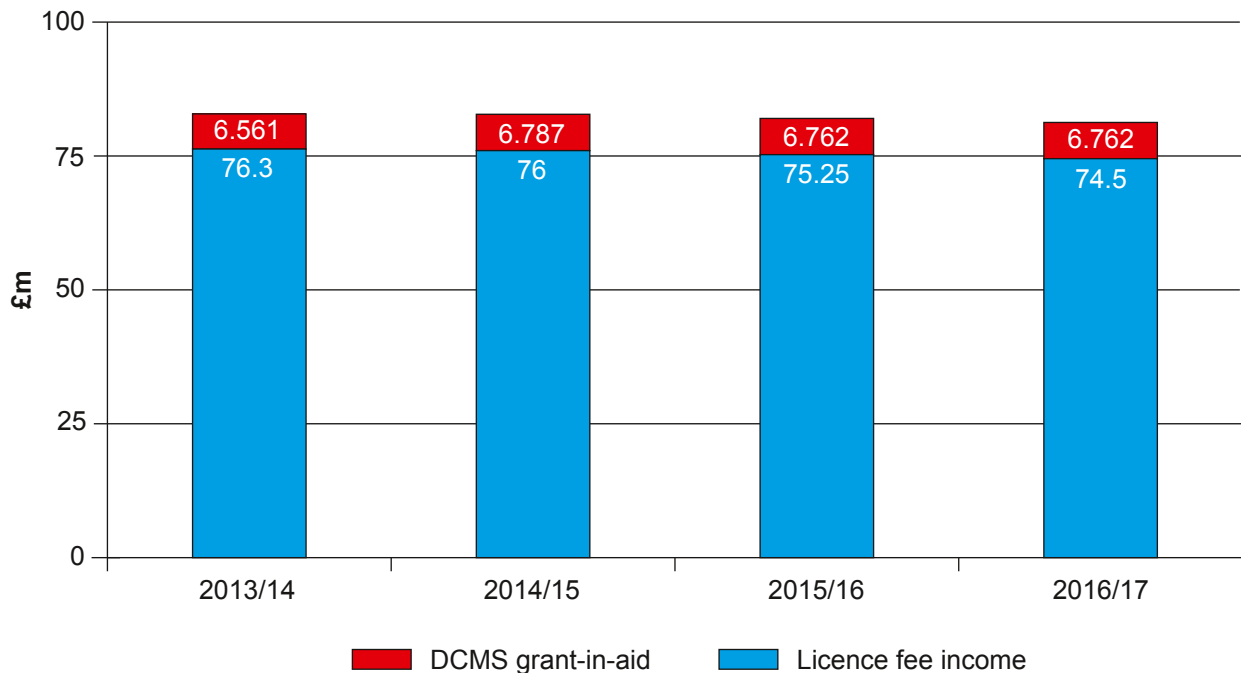
As new satellite and terrestrial services grew and advertising revenue became less predictable, this funding model became unsustainable. Under the Broadcasting Act 1990, the IBA became the new Independent Television Commission (ITC) which licensed all commercial broadcasters, and public funding for S4C moved entirely to HM Treasury. Funding was calculated based on the final year of IBA funding and linked to inflation. Alongside this S4C was given the power to raise its own advertising revenue (which was over £10 million at the time). This dual funding stream continued for almost 20 years.

More recently S4C has been through a period of funding reform. Like many other publicly funded services, S4C’s funding was reduced at Spending Review 2010. Alongside this, the Public Bodies Act 2011 gave responsibility to the Secretary of State for Digital, Culture, Media and Sport (DCMS) to ensure that S4C receives ‘sufficient’ funding to deliver its remit.²¹ In 2013, S4C funding was almost entirely transferred from HM Treasury to the licence fee. In addition to this the government also provides

²¹ Section 31 Public Bodies Act 2011.

a small annual grant-in-aid from DCMS. In 2016/17, licence fee funding accounted for around 92% of total S4C public funding (£74.5 million) and the DCMS grant-in-aid amounted to around 8% of total S4C public funding (£6.762 million).

Figure 3: S4C public funding streams



Funding stability

Some review contributors suggested that more clarity is needed as to what ‘sufficient’ funding means (as set out in the Public Bodies Act 2011). However my view is that discussions about sufficient levels of funding is a distraction from the real issue – ensuring S4C funding is on a stable and transparent footing. This echoes the key points made by the European Broadcasting Union (EBU) in its public funding principles for public service media:²²

- **Stable and adequate:** A stable and predictable source of funding enabling full coverage of the public service remit in the digital media age.
- **Independent from political interference:** Not reliant on political favour, thereby promoting public trust in public service media and its role as a truly indispensable service.
- **Fair and justifiable:** Fair and objectively justifiable to the public and the market.
- **Transparent and accountable:** An open and clear funding mechanism holding public service media accountable to its audience.

In 2015 the government agreed with the BBC that S4C would receive £74.5 million in each financial year from the licence fee for the duration of the 2017/18 – 2021/22 licence fee funding settlement. This

²² Dr Richard Burnley (2017), Public Funding Principles for Public Service Media.

arrangement is set out in the BBC Framework Agreement.²³ This funding stream is fixed, stable and transparent and gives S4C the financial certainty to plan ahead.

However the additional DCMS grant-in-aid funding for S4C is not fixed nor stable. As with all government funding, it is subject to change with spending reviews, budgets and changing government priorities. This was the case at Spending Review 2015 where government funding for S4C was reduced while licence fee funding for S4C remained the same.

Using government funding as the secondary mechanism to fund the core remit of a public service broadcaster is therefore problematic because there is a limit to the level of certainty it can provide. In my view this lack of certainty regarding government funding has created a level of anxiety among S4C and stakeholders that goes well beyond the impact of the actual sums involved. This has in turn created an unnecessary distraction from the real challenges that S4C faces (as set out in chapter 1).

S4C needs funding stability to make the creative and commercial choices it needs to thrive in an increasingly competitive broadcasting market. Having considered a wide range of stakeholder views I have concluded the only way to achieve this is by removing the uncertainty of the DCMS grant-in-aid, and providing S4C's public funding entirely through the licence fee.

The current licence fee funding settlement for S4C is fixed in the Framework Agreement until 2021/22 and I am not recommending this settlement is changed. Instead I recommend that S4C funding decisions are aligned with the BBC's licence fee funding settlement. The government should review S4C funding as part of government's regular licence fee funding settlement negotiations with the BBC, which usually take place every five years or so (depending on the length of the BBC Charter). The next licence fee settlement period will begin in 2022/23. S4C is already primarily funded by the licence fee so this would require no structural changes to the current funding process.

The Framework Agreement states that following completion of the S4C review, the Secretary of State for DCMS (after consulting the BBC and S4C) must set out the process for determining S4C funding from the licence fee for 2022/23 to 2027/28.²⁴ My recommendation would therefore align with this requirement for the Secretary of State. Such a change would not undermine the Secretary of State's statutory duty to ensure sufficient funding for S4C, because government would still retain the mechanism to execute its determination of sufficient funding via its funding settlement negotiations with the BBC.

Full alignment with the licence fee would give S4C funding certainty for five years or so at a time. This gives S4C the same level of certainty as the BBC and removes the distractions which are preventing S4C from stepping up to the challenges it faces.

I know that S4C and some of its supporters believe the existence of government funding (on top of licence fee funding) protects S4C independence. I do not support this view, nor do I see how government funding could somehow safeguard S4C independence above and beyond what are very clear Framework Agreement obligations.

As outlined in chapter 1, S4C has a close and unique relationship with the BBC and the two broadcasters' recently published partnership agreement sets out how they will work together strategically, creatively and operationally to deliver public value for Welsh speaking audiences for the next decade. Central to this is the shared objective (set out in the Framework Agreement) to work together to observe and

²³ Clause 39(3) BBC Framework Agreement.

²⁴ Clause 39(4) BBC Framework Agreement.

safeguard each other's independence.²⁵ My view is that providing S4C's public funding entirely through the licence fee complies with both the spirit and the letter of the new partnership agreement, and will support a successful future for S4C.

Recommendation 4

S4C's public funding should be provided entirely through the licence fee from 2022/23 onwards, with all future funding decisions made as part of the BBC licence fee funding settlement.

Commercial activity

“Like other public bodies we recognise the pressure to maximise public investment. S4C is in a better position than any to do this and should be allowed to raise commercial income where appropriate.”

-- Arts Council of Wales

S4C's commercial activities are currently carried out through a small commercial arm (S4C Commercial) which is wholly owned by S4C. According to S4C's latest annual report, its commercial strategy includes selling advertising and sponsorship, developing the Cyw pre-school brand, and working with production sector partners to explore co-production and programme sales opportunities. Since 2010 the S4C Authority has had representation on the S4C Commercial Board and the Commercial Board also provides regular written reports to the Authority.

However a number of review contributors raised concerns there is not a strong enough link between the Authority and S4C Commercial to make full use of commercial opportunities and use commercial revenue to invest in S4C's core business. Although S4C Commercial reports to the Authority, commercial activity is not fully embedded as part of S4C's strategic direction. I strongly agree with this view and suggest that S4C explores ways to bring commercial enterprise into the heart of its public services with commercial strategy driven centrally by the Authority.

I would also encourage S4C to consider how S4C Commercial and the revenue it generates can be best used to invest in new projects and leverage the best returns. In particular I think it is important that S4C explores alternative ways to generate new income streams from content distribution, particularly on digital platforms. With stable public funding S4C needs to put new energy and thinking into innovative ways to add commercial value to the organisation.

Some review contributors also suggested that S4C and independent producers should work together to make more concerted efforts to generate commercial income from their content through international distribution. I agree this should be an area of focus for S4C. S4C's position as a minority language broadcaster in a bilingual community is its unique selling point and its formats will have value in other countries with similar arrangements.

I also believe S4C and independent producers should focus on opportunities to co-finance and co-produce projects, particularly on digital content. I argued in chapter 1 that S4C needs to shift its strategic focus to prioritise digital content alongside its traditional linear broadcast services. Digital content is an area which is ripe for commercial investment. For example, in November 2017 the government announced a £21 million investment to create a new network of regional tech hubs to support the

²⁵ Clause 39(2) BBC Framework Agreement.

growth of the UK's pioneering and innovative digital companies and clusters. One of these hubs will be in Cardiff which would potentially be a strong new investment opportunity for S4C.

S4C receives a large amount of public money and is accountable to the licence fee payer and taxpayer for delivering value for money and high quality services. My view is that S4C should be using its scale and resources to explore all potential commercial avenues and seek to maximise commercial revenue, reinvest in its services and deliver even greater public value. The BBC is obviously a prime example of how this model can work in practice – and I see no reason why S4C cannot make demonstrable strides to improve its commercial offer as the world's only Welsh language broadcaster. I would note though that, like the BBC, S4C receives significant state subsidy and all its commercial undertakings should include careful consideration of the impact on the wider market.

S4C argues that its ability to undertake commercial activities is currently restricted because of limitations set out in legislation. Under the Communications Act 2003, S4C must write to the Secretary of State for DCMS to seek approval to undertake certain commercial activities. Any approval by the Secretary of State must be contained in an order.²⁶ This process does not prevent S4C undertaking commercial activity (for example, the Secretary of State laid an order in 2008 to allow S4C to invest in digital), but S4C contends it is a lengthy and convoluted process that is not compatible with the business model of a modern broadcaster. Some review contributors even said this process may have contributed to missed commercial opportunities.

It is important to remember that as a public body in receipt of licence fee and government funding, it is right that S4C is subject to a certain level of government oversight. In this case the key is ensuring this oversight is practical and proportionate, and does not unduly limit S4C's ability to compete and succeed.

Earlier in this chapter I argued that uncertainty around the definition of sufficient funding is distracting S4C from the real challenges it faces. I believe similar issues arise with regard to commercial activity as well. While the process of seeking approval from the Secretary of State certainly seems convoluted, I agree with some review contributors who suggested that the process has given S4C an excuse not to make generating commercial revenue a strategic priority. Nevertheless I do broadly agree the process could be simplified to support S4C to innovate and take the commercial decisions it needs to succeed in a fast-changing media landscape.

On this basis, I recommend the government considers how current requirements to approve S4C commercial activities can be relaxed to give S4C greater freedom to invest and generate commercial revenue. Greater commercial freedom would allow S4C to generate commercial income from its content and investments, deliver greater public value, strengthen S4C's financial stability and bring them in line with how other public service broadcasters operate.

Recommendation 5

The government should consider amending current approval requirements to give S4C greater freedom to invest and generate commercial revenue.

²⁶ Section 206 Communications Act 2003.

Chapter 3: Securing an independent and effective S4C

“S4C should maintain its independence as a broadcaster from both BBC and government and be transparent in its governance and accountability. Fairness, transparency and accountability should be the core principles of any governance structure.”

-- PACT

Governance and accountability

The Welsh language community is fond of its institutions but it is not resistant to change. As a community in Wales and beyond, it has embraced technological change but some of its institutions have found it difficult to adapt to the strains and stresses of the digital revolution. S4C has made some efforts to adapt but my discussions during the review have given me the impression that many people feel the organisation is slightly behind the curve. My ambition in this review is to create the environment where S4C is institutionally capable of getting ahead of the curve. This begins with governance and regulation.

In this section I will set out the current governance and accountability mechanisms and my assessment of the reforms needed to achieve a modern and well-functioning S4C. In doing so, I am also focused on the need for S4C to retain its operational and editorial independence in a globally-connected digital environment – something stressed by all contributors to this review.

S4C Authority

S4C’s non-executive governing board is known as the S4C Authority. Its members are appointed by the Secretary of State for DCMS in consultation with the Wales Office and the Welsh Government. Vacancies are advertised publicly and appointments are made following a public appointments procedure.

The S4C Authority oversees S4C strategy and financial management, along with ensuring the organisation complies with its regulatory duties.²⁷ The Authority does not manage S4C on a day-to-day basis and is not involved in commissioning or editorial decisions – these management responsibilities are delegated to the executive team. Members of the executive team also attend Authority meetings. This structure is intended to ensure the S4C Authority remains at arm’s length from executive team decisions, particularly in terms of content.

From my discussions during this review, it has become obvious the Authority in its current form is not the right structure to drive progress and change. The Authority model worked well when the IBA regulated S4C and the Authority focused on strategic oversight. However when the IBA was dissolved in 1992, the Authority took on regulatory responsibilities and became both cheerleader and regulator (as the former BBC Trust was). The Communications Act 2003 then transferred most regulatory responsibilities from the Authority to Ofcom. In 2011, following a period when the lines between the Authority and executives was less defined, the functions were divided into a two-tier structure with separate Authority

²⁷ The duties of the S4C Authority are set out in the Communications Act 2003 and the Broadcasting Acts 1990 and 1996.

and executive Strategic Management Board, which I think has created uncertainty around who is responsible for what. Although in principle there should be a clear separation of duties, in practice there is inconsistency and confusion – particularly in terms of having an executive management board which is also responsible for strategy, alongside the Authority. This view is shared by many review contributors.

I have concluded this two-tier management structure is not the best way to ensure S4C's editorial and operational independence in the current media landscape. As I have argued in previous chapters, S4C needs to be bold and take risks to reach new audiences, new platforms and new ideas. It needs clear vision and leadership which I think can only be achieved by having a single board that includes executive management as well as non-executive members. This composition will help deliver a single vision with effective checks and balances and executive level buy-in embedded from the start.

On this basis I recommend the S4C Authority is replaced with a brand new unitary board, comprised of both executives and non-executives, capable of driving forward S4C's new priorities. This approach should reflect the principles of good governance set out in the Financial Reporting Council's UK Corporate Governance Code.²⁸ My view is that this would be a more efficient and robust way to lead the organisation at a time when strong leadership is needed to guide S4C through the challenges ahead.

Both executive and non-executive members should have clearly defined roles and responsibilities (where the executives manage and non-executives scrutinise and advise). The non-executives should constitute the majority of board members to support effective challenge to the chief executive and executive team. The non-executives should be a diverse group with a strong mix of varied and complementary skills, experience and backgrounds. A balanced and diverse board will be key to ensuring the success of S4C. Non-executives should be appointed in the same way as current Authority members – by the Secretary of State for DCMS in consultation with others. The non-executives should then appoint the executive members of the board.

The new unitary board should be responsible for discharging S4C's public service remit and ensuring it meets its regulatory duties. It should also oversee senior executive appointments, financial management and complaints.

Recommendation 6

The S4C Authority should be replaced with a new unitary board comprising executive and non-executive directors.

Regulatory framework

My discussions with review contributors highlighted the considerable uncertainty about S4C's regulatory arrangements and I want to take this opportunity to clarify the issue.

The Secretary of State for DCMS has powers to review S4C's fulfilment of its public service remit and to direct the S4C Authority to take remedial action in the event of a finding of failure to fulfil the remit.²⁹ The Secretary of State also has power to approve via order the provision of new services by the S4C Authority if certain conditions are met.³⁰

²⁸ Financial Reporting Council (2016), The UK Corporate Governance Code.

²⁹ Section 339-340, Part 3 Communications Act 2003.

³⁰ Section 205, Part 3 Communications Act 2003.

S4C's regulatory framework is set out in the Broadcasting Act 1990, Broadcasting Act 1996 and the Communications Act 2003. The Communications Act 2003 transferred the vast majority of regulatory functions to Ofcom and the self-regulatory responsibilities of the S4C Authority are now much reduced.

Ofcom has considerable experience and credibility, and has a general statutory duty to take into account the views and interests of those who live in different parts of the UK.³¹ Ofcom ensures this through having a dedicated Advisory Committee for each of the nations, and representatives on the Content Board and Consumer Panel. Welsh ministers are also expected to appoint the first Welsh representative to the main Ofcom Board in 2018 as part of the government's wider devolution commitments.

S4C is not required under the statutory scheme to be licensed by Ofcom, but the statutory scheme does put in place many of the same obligations that licence holders are subject to. In short, Ofcom already has many of the same powers to regulate S4C that it has for the broadcasters it does licence.

Ofcom has duties to:

- assess S4C compliance with quotas set by the Authority and Ofcom, including independent production, original production, news and current affairs (see table 1 below);
- monitor compliance and consider complaints relating to Ofcom codes, including the Broadcasting Code (which covers issues such as standards, fairness and impartiality);
- report on S4C's performance against its obligations in its annual PSB Nations and Regions Compliance Report.

Ofcom can impose penalties of up to £250,000 on S4C for non-compliance with quotas.³² Ofcom can also impose penalties in relation to a failure to comply with the standards code, the fairness code, and directions in respect of fairness matters, and the access code. In addition, the power to impose penalties applies to S4C compliance with advertising and sponsorship obligations, S4C duties to publicise complaints procedures, S4C obligations to monitor its programmes, S4C requirements to comply with international obligations, and S4C compliance in relation to video on demand programme services.

³¹ Section 3 (4)(l) Communications Act 2003.

³² Note the ability to fine does not apply to European programming quotas under AVMSD compliance with the code on programme commissioning.

Table 1: S4C quotas³³

Area	Annual quota	Performance in 2016
National and international news – All day	200 hours	273 hours
National and international news – Peak (1800–2230)	150 hours	206 hours
Current affairs – All day	60 hours	97 hours
Current affairs – Peak time (1800–2230)	30 hours	52 hours
Original production – All day	80%	83%
Original production – Peak time (1800–2230)	90%	100%
Independent production – All day	25%	94%
European programmes*	50%	97%
European independents*	10%	88%
Recent works*	50%	70%
Subtitling	53%	81%
Audio description	10%	10%
Signing	5%	5%

*European programming requirements – Quotas relate to the Audiovisual Media Services (AVMS) Directive which requires that the majority of programmes on each channel must be European (including from the UK) and at least 10% must be made by independents. Of these, the majority must have been made within the past five years.

To enable Ofcom to undertake these duties, S4C pays Ofcom a regulatory fee and provides information to Ofcom relating to these obligations.

The S4C Authority has more limited responsibilities. S4C's 2016/17 annual report states: 'The Authority has a statutory duty to ascertain the state of public opinion concerning programmes broadcast on S4C, any effects of such programmes on the attitudes or behaviour of viewers as well as the types of programmes that members of the public would like to be broadcast on S4C. The Authority is also responsible for ensuring that relevant provisions are in place to enable viewers to complain to S4C about its programming'. In addition the S4C Authority also has a duty to ensure that S4C meets its public service obligations and a duty to prepare statements of programme policy.

However this current framework is not necessarily clear to external stakeholders. Many review contributors suggested to me that as regulation of the BBC has moved to Ofcom, the same should apply to S4C. BBC regulation moved to Ofcom to provide a strong regulator to ensure the BBC delivers its mission and public purposes and it is right that, as the recipient of a substantial amount of licence fee and public money, S4C is also properly held to account for delivering its remit.

Taking into account the Secretary of State's powers and Ofcom's current regulatory responsibilities for S4C, as set out above, my view is the current regulatory framework provides clear lines of public accountability for S4C. However I would note that a strong new S4C unitary board (as recommended above) should take a proactive and robust role in ensuring that S4C is held accountable for delivering its public service remit and obligations.

³³ See Schedule 12 Communications Act 2003.

Some review contributors also suggested that S4C, like other public service broadcasters, should have a service licence arrangement. While in principle this would align S4C with other broadcasters, it would not substantively alter Ofcom's current regulatory responsibilities. I have therefore concluded that additional regulatory arrangements are not necessary and would not add value to either S4C or Ofcom.

Ultimately I believe the current regulatory arrangements are broadly effective. However I would encourage S4C to work with Ofcom to consider how they could do more to inform stakeholders about the nature of their respective regulatory responsibilities.

Accountability

S4C is a public body and accountable to Parliament for its financial management. S4C must lay its annual report and accounts before Parliament each year and the S4C chief executive is the accounting officer responsible to the Public Accounts Committee. S4C is also accountable to the DCMS Select Committee and Welsh Affairs Select Committee.

As a recipient of licence fee funding, S4C is required to agree accountability arrangements with the BBC to give the BBC assurances that the funding it provides is being used properly and efficiently in the provision and broadcasting or other distribution of S4C services.³⁴ To support this the new BBC-S4C partnership agreement requires S4C to provide a financial assurance report to the BBC every 6 months.³⁵

National Audit Office

The National Audit Office (NAO) scrutinises public spending for Parliament. This includes monitoring the spending of a number of public bodies and assessing whether the UK's principles of public spending (regularity, propriety, value for money and feasibility) are followed.

The NAO has no formal audit role for S4C. As S4C receives public funding, the NAO has some access to S4C's financial affairs in relation to economy, efficiency and effectiveness. This is set out in the new BBC-S4C partnership agreement.

*'Subject to the relevant statutory provisions relating to the audit requirements upon S4C, the National Audit Office shall have access to the licence fee contribution provided to S4C for the provision of the S4C Services for the purpose of carrying out examinations into the economy, efficiency and effectiveness with which S4C has used its resources in discharging its functions.'*³⁶

The new BBC Charter and Framework Agreement established the NAO as the BBC's external auditor, with the government's White Paper noting this would provide a 'stronger element of scrutiny that is truly external' to the organisation.³⁷ I believe this argument is equally relevant for S4C as a body that receives considerable public funding, particularly in light of my earlier recommendation that S4C should have a unitary board with strengthened external accountability.

³⁴ Clause 39(5) BBC Framework Agreement.

³⁵ Clause 4.5 Partnership, Funding and Accountability Agreement between the BBC and S4C (2017).

³⁶ Clause 4.7 Partnership, Funding and Accountability Agreement between the BBC and S4C (2017).

³⁷ Department for Culture, Media & Sport (2016), A BBC for the future: A broadcaster of distinction.

S4C is currently required by statute to appoint external auditors to audit its statement of accounts.³⁸ It is worth noting that Grant Thornton LLP has been S4C's external auditors since S4C's creation. Although S4C has provided assurances that the team working on their accounts changes regularly and that the firm was chosen (from tender) on merit every time, there are risks around familiarity in the audit process which can arise when an auditor remains with an organisation for a long time.

I have therefore concluded the government should consider whether S4C's current financial audit arrangements are suitable, including whether it would be appropriate to appoint the NAO as S4C's external auditor to provide greater transparency and support parliamentary oversight of this public spending, and enhance the consistency of NAO oversight on the licence fee. The government may also wish to consider the case for NAO to undertake value for money studies of S4C activities.

Of course it is important to emphasise the NAO would not question the appropriateness of S4C's objectives as set by Parliament, nor would it question the merits of S4C's editorial or creative judgements, but instead focus on whether S4C delivers its objectives in a cost-effective way.

Recommendation 7

The government should consider whether S4C's current financial audit arrangements are suitable, including whether it would be appropriate to appoint the Comptroller and Auditor General as S4C's external auditor.

³⁸ The statutory provisions (set out in para. 12(2) of Schedule 6 of the Broadcasting Act 1990) require Secretary of State approval for the appointment.

Conclusion

In 2022 S4C will have been broadcasting to Welsh speaking audiences for 40 years. Whether it is still relevant in the changing media landscape will depend on how the organisation responds to the challenges and opportunities it faces over the next five years.

It is very clear from the written submissions and discussions I had with a wide range of stakeholders that S4C plays a vital role in the economic, social and cultural fabric of Wales and still commands significant support. However almost all review contributors were clear that S4C needs to do more.

Central to this challenge is the need for innovative thinking. S4C needs to move away from the organisation's established orthodoxy of the last 35 years to remain relevant and competitive while staying true to its core purposes. This means recalibrating its strategic priorities to increase its focus on digital content and platforms alongside traditional linear broadcast, developing and maintaining strong relationships with a wider range of partners, and making more concerted efforts to maximise commercial income and investment. This will not just require strategic change but a real cultural shift in S4C from the top down.

Structural changes in the broadcasting sector means that S4C will have to work smarter to compete. This means taking significant steps to improve S4C's digital offer to ensure that it adapts to increasing audience fragmentation and caters to changing consumption habits. Modernising S4C's public service remit and establishing an in-house digital hub will help S4C respond to the opportunities of the new digital age, and ensure that it can maintain its current audience while broadening its appeal to new generations of viewers.

Alongside this is S4C's relationship with the rest of the sector. My clear message is that S4C must be a better partner and collaborate more effectively with all areas of the sector. S4C's unique position as the Welsh language broadcaster comes with a responsibility to support the creative ecosystem of which it is an intrinsic part. As well as partnerships with big players like the BBC, S4C should explore all avenues for collaboration to support and nurture the Welsh broadcasting sector and wider creative industries. Partnership is not just good for the sector but vital for S4C as well. In a world where the broadcasting sector needs to work together to survive, effective collaboration will be crucial to helping S4C achieve its long-term strategic objectives to broaden its audience while providing opportunities to identify synergies and efficiencies.

Beyond S4C's remit, strategy and partnerships I have concluded the most important thing the organisation needs to thrive is funding stability and certainty. The vast majority of S4C funding already comes from the licence fee, but the small additional amount of government funding from DCMS has created a disproportionately high level of anxiety among S4C and its stakeholders. In my view the best way to address this issue is for S4C public funding to be provided entirely through the licence fee, to give it the same funding certainty as the BBC and align the two broadcasters to support their new partnership agreement. Alongside this I think S4C should be doing more to supplement its public funding and deliver greater value for money by maximising commercial revenue and exploiting commercial opportunities.

To support my recommendations on funding methods, I have also made recommendations to address the concerns raised by many review contributors about S4C's current governance arrangements. I share the concerns of many stakeholders that the S4C Authority is no longer the right structure to drive

change and a new unitary board that includes executives is required to provide the strong leadership needed to steer S4C through the challenges ahead. My second recommended governance reform is for government to consider whether S4C's current financial audit arrangements are sufficient and whether the National Audit Office should become the external auditor of S4C, which would ensure full accountability for the way S4C spends public money. In response to the lack of clarity on the division of responsibilities between the S4C Authority and Ofcom, I have also set out my understanding of the current regulatory landscape and do not recommend any immediate change.

Of course this is all within the context of S4C's broader purpose to promote the Welsh language. I have argued that S4C has a central role to play in helping the Welsh Government deliver its vision to achieve 1 million Welsh speakers by 2050, and I hope the partnership I have recommended comes to fruition and yields the progress we need to bolster the Welsh speaking population.

S4C is at a fork in the road. It can either choose to continue as it always has and risk losing its relevance, or change and adapt to the new landscape. Throughout its history S4C has been most effective when it had the confidence to take chances, and the organisation needs to find this confidence again to deliver added value as the Welsh language broadcaster. As S4C embarks on the next stage of its journey, it must continue to deliver high quality content to serve Welsh speaking audiences and value for money, as it pursues its long term strategic vision with the confidence to embrace the opportunities of the digital age as a modern digital broadcaster.

Appendix A: Terms of reference

S4C was created by the Conservative Government in 1982, and this UK Government remains committed to supporting the valuable service S4C provides to Welsh speaking audiences. We want to see the channel thrive and flourish in the 21st century and embrace the opportunities of a digital age.

Background

S4C is a Welsh language broadcaster, mainly funded by the TV licence fee, but also supported by grant-in-aid from the UK government. S4C also generates some additional income through commercial activities, providing around 2% of the channel's funding.

The government has committed to undertaking an independent review of S4C's remit, governance and funding.

1. Objectives

- a. To conduct a review to:
 1. examine S4C's remit, including with respect to online services, and consider whether changes are required in light of changing viewing habits and technological developments
 2. examine S4C's current governance structure and accountability models
 3. examine S4C's partnership with the BBC and its current funding methods
- b. To make recommendations to the Government within 3 months.

2. Key considerations

In assessing the objectives above (1a –b), the review will consider the following factors:

- a. S4C's role in promoting, and its impact on, the Welsh language and wider place in Welsh culture and society
- b. S4C's contribution to the Welsh economy
- c. S4C's relationship with the independent production sector and other broadcasters and cultural institutions, including whether its partnerships are working effectively and to maximum effect
- d. Audience opinions, satisfaction and viewing figures of both Welsh speaking viewers, learners and the non-Welsh speaking population, both in Wales and across the UK
- e. S4C's editorial independence, and appropriate transparency and accountability arrangements
- f. The way in which the S4C is governed and held accountable, including how the S4C Authority is operating and whether alternative models of governance should be considered
- g. The way in which S4C is regulated and the role of Ofcom
- h. Value for money, efficiency and the role of the NAO
- i. The way S4C is currently funded, including the licence fee, grant-in-aid and commercial sources, and its financial relationship with the BBC from 2022/23

j. The extent of S4C's commercial freedoms

3. Process

The review should seek evidence from a wide range of stakeholders, including the Welsh public, key industry and Welsh language stakeholders, other broadcasters, the UK and Welsh governments, as well as other interested parties in Wales and across the UK.

4. Output

A report setting out an assessment of the current remit, governance and accountability structures and funding methods, as well as proposals for the most appropriate remit, regulatory, governance and funding models for the future of S4C, including key findings, conclusions and any other supporting information. The report must be submitted to the Secretary of State for Digital, Culture, Media and Sport within 3 months, prior to publication.

Appendix B: Parties consulted

Organisations that Euryng Ogwen Williams met during the review

Organisations	Representatives
Arts Council of Wales	<ul style="list-style-type: none"> • Phil George (Chair)
BBC	<ul style="list-style-type: none"> • Elan Closs Stephens (BBC Board member for Wales) • Rhodri Talfan Davies • Rhys Evans • Sian Gwynedd
BECTU	<ul style="list-style-type: none"> • David Donovan
Equity	<ul style="list-style-type: none"> • Simon Curtis
ITV	<ul style="list-style-type: none"> • Phil Henfrey, Geraint Evans, Huw Rossiter
MG Alba	<ul style="list-style-type: none"> • Donald Campbell (CEO)
National Assembly for Wales	<ul style="list-style-type: none"> • Bethan Jenkins AM (Chair of the Culture, Welsh Language and Communications Committee) • Steve George
National Eisteddfod of Wales	<ul style="list-style-type: none"> • Elfed Roberts (CEO)
Ofcom	<ul style="list-style-type: none"> • Aled Eirug (Welsh member of Ofcom Content Board) • Glyn Mathias (Chair of the Welsh Advisory Board) • Rhodri Williams, Tom Walker
PACT	<ul style="list-style-type: none"> • Wil Stephens, Rosina Robson
S4C	<ul style="list-style-type: none"> • Huw Jones (Chairman) • Owen Evans (CEO) • Ian Jones (former CEO) • Amanda Rees (Creative Content Director) • Rhodri ap Dyfrig (Online Content Commissioner)
Smorgasbordstudio	<ul style="list-style-type: none"> • Dylan Griffith
TAC	<ul style="list-style-type: none"> • Gareth Williams • Iestyn Garlick • Nia Thomas
TG4	<ul style="list-style-type: none"> • Padhraig O'Ciara (Chair of the Celtic Media Festival)
University of South Wales – Centre for Media and Culture in Small Nations	<ul style="list-style-type: none"> • Professor Ruth McElroy • Hywel William • Dr. Helen Davies
Welsh Government	<ul style="list-style-type: none"> • Alun Davies AM • Bethan Webb (Deputy Director Welsh Language) • Dr. Hywel Owen • Paul Kindred

Organisations	Representatives
Welsh Language Commissioner	<ul style="list-style-type: none"> • Meri Huws • Anna Rolewska
Writer's Guild – Welsh Committee	<ul style="list-style-type: none"> • Committee members including: • Manon Eames • Sion Eirian • Siwan Jones • Wil Roberts • Roger Williams
Urdd Gobaith Cymru	<ul style="list-style-type: none"> • Aled Sion • Mai Roberts

Individuals and organisations that submitted written evidence

1. Anna McMorrin MP
2. Arts Council of Wales
3. Bangor University – Dr. Alison Mawhinney & Carys Aaron, School of Law
4. BBC
5. BECTU Cymru
6. Boom Cymru
7. Cardiff University – School of Journalism, Media and Culture
8. Chwarel
9. Cwmni Tinopolis Cymru
10. Dyfodol i'r Iaith
11. Equiniti
12. Equity
13. Huw Marshall – Consultant
14. Institute of Welsh Affairs
15. ITV Cymru Wales
16. Learned Society of Wales
17. Liberty Global – Guto Harri, Managing Director of External Communications
18. Llangollen International Musical Eisteddfod
19. Menter Brycheiniog a Maesyfed
20. Menter Iaith – Bro Dinefwr
21. Menter Iaith – Cwm Gwendraeth Elli
22. Menter Iaith – Flint & Wrexham
23. Menter Iaith – Gorllewin Sir Gâr
24. Menter Iaith – Neath & Port Talbot
25. Menter Iaith – Newport
26. Mentrau Iaith Cymru
27. Merched y Wawr
28. Mudiad Meithrin
29. Museum of Wales
30. National Centre for Learning Welsh
31. National Library of Wales
32. NFU Cymru
33. PACT
34. Patrick Irwin

35. Paul Lewis, Yellow Ducks Productions
36. Plaid Cymru – Ben Lake MP and Dai Lloyd AM
37. Rondo Media
38. S4C – Amanda Rees, Creative Content Director
39. Sharp Clinical Services
40. Swansea University – Department of Communications & Media
41. TAC (Teledu Annibynnol Cymru)
42. Telesgop
43. Undeb yr Annibynwyr Cymraeg
44. Uned Iaith Cyngor Gwynedd
45. University College London – Prof. Tegid Wyn Jones, Department of Physics & Astronomy
46. University of South Wales – Professor Ruth McElroy, Hywel Wiliam, Dr. Christina Papagiannouli & Dr. Helen Davies, Centre for Media and Culture in Small Nations
47. Urdd Gobaith Cymru
48. Wales Pre-School Providers' Association
49. Welsh Language Commissioner
50. Welsh Language Society
51. Wesley Clover Corporation
52. What Next? Cardiff
53. Y Coleg Cymraeg Cenedlaethol

Events attended

Ysgol Bodedern, Anglesey: Focus group with Year 8 children – 26 October 2017
Ysgol Bro Edern, Cardiff: Focus group with Year 8/9 children – 15 November 2017
S4C viewers evening, Llangefni, Anglesey – 26 October 2017
S4C viewers evening, Abergavenny – 7 November 2017
Dathlu'r Gymraeg Conference – 9 November 2017

Other evidence considered

TRP Research Wales Media Panel of 462 Welsh speakers in September & October 2017
S4C Public Survey 2016

National Assembly for Wales Culture, Welsh Language and Communications Committee inquiry into S4C: oral and written evidence and the Committee's final report (Outside the Box: The Future of S4C) published in August 2017.

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