



S4C: An Independent Review

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1 Summary

1. Launched in 1982, S4C fulfilled a long-felt need in Wales for a public service Welsh language channel of high quality. It also enabled Welsh viewers to watch much of Channel 4's output.

Arrangements were made from the outset for BBC and HTV to supply programmes to S4C, although the bulk of programmes in the medium of Welsh are now supplied by independent producers. The original agreement whereby BBC Wales supplies 520 hours of Welsh language programmes a year to S4C remains in place.
2. Audience shares and reach rose until the mid nineties. Since 1996, S4C has faced increased competition for viewers with the coming of multi-channel television and slower growth in revenue than in the earlier years. S4C argues that it has not received the 'digital dividend' offered to other public service channels. Nevertheless it has introduced a wider range of services, at an additional cost of around £10 million each year. S4C took a one-third share in SDN, a multiplex operator, in 1998.
3. There are currently a number of unresolved issues facing S4C :
 - The annual RPI-linked grant from government, introduced in 1998, has not kept pace with broadcasting inflation, and the Channel's other major source of revenue from advertising sales is in long-term decline.
 - Audience shares and reach have fallen since the mid nineties, although there are indications that, as the number of Welsh speakers has begun to increase after a long period of decline, audience reach has now stabilised.
 - S4C currently transmits three programme services – S4C, S4C Digital and S4C2. The new digital services are putting a strain on the funding of the core programme service.
 - S4C's ongoing partnership with the BBC is in need of review. The BBC's contribution to S4C represents a significantly smaller slice of the licence fee than it did in 1996.
 - S4C needs to maintain and, in some cases, to build long-lasting relationships with partners in post-devolution Wales.
 - S4C's role and remit have been defined up to now in terms appropriate for the analogue age and may need to be reviewed before digital switchover.
4. S4C is delivering its remit more efficiently and effectively than before. It is achieving the four basic public service objectives identified by the 2003 Communications Act.

The major cost centre is the programme budget. S4C is controlling costs by increasing the proportion of repeats within its overall service, by a slight reduction in the volume of commissioned programmes in Welsh and by rigorous cost control of its suppliers.

S4C's level of overhead cost is lower than those of its national public service competitors.

- **It is recommended that S4C should continue to benchmark its programme and overhead costs against other broadcasters and to review designated areas of its operations on a regular basis.**

5. S4C currently has three major streams of commercial revenue, managed by its trading subsidiary, S4C Masnachol : airtime sales and sponsorship, programme sales, pre-sales and co-productions, multiplex operation (SDN).

Airtime sales revenue is in long-term decline. Co-productions and pre-sales add real value to S4C's programme service, and should remain an integral part of S4C's strategy. But the recent Programme Supply Review puts a question mark over the future of S4C's in-house programme distribution operations. SDN and S4C's gifted capacity are valuable assets. S4C will need to determine how best to exploit these assets.

S4C's relationship with the BBC offers a major opportunity for adding value to the programme service.

- **It is recommended that S4C's programme distribution operations be reviewed in the light of Programme Supply Review.**
- **It is recommended that, as part of the Charter Review process, the BBC and S4C should be invited to agree a formula for the supply of programmes and other services by BBC to S4C, financed by the licence fee, appropriate for the current needs of public service broadcasting in the medium of Welsh.**

S4C also has an important role to play in supporting initiatives to develop the creative and cultural industries in Wales.

- **It is recommended that S4C should seek to play a more integral role in developing the national cultural and economic agendas in Wales.**

6. S4C's internal review document has identified S4C's priorities for the future. The debate on the proposals in the document will take place against the backdrop of the Government's Digital Action Plan, BBC Charter Review and OFCOM's Review of Public Service Broadcasting.

7. In Wales, well over 70% of individuals already have access to digital services. In the process of digital switchover, there are some issues specific to S4C – notably the likely cost of transmission of its digital services. Uncertainty about S4C's transmission arrangements after digital switchover is holding up other decisions.

- **It is recommended that S4C's digital service(s) should be transmitted on the same multiplex as other public service broadcasters in Wales.**

Were S4C's digital service to be transmitted on one of the existing public service multiplexes, the value of SDN and its gifted capacity would still remain with S4C. S4C will need to decide how best to maximize the value of these assets. The timing of decisions will be important.

8. S4C's internal review document summarises the issues the channel believes are critical to its future success. These are :

1. Digital terrestrial rollout to the same extent as other PSBs;
2. An appropriate level of prominence on electronic programme guides for S4C's services, including the children's programmes strand;
3. Additional resources to improve programme quality;
4. Additional resources to allow expansion of the range and diversity of the Welsh language service;

5. Additional resources to allow the development of interactive services and exploitation of other opportunities afforded by new technology, including broadband;
6. The establishment of effective working partnerships to create added value.

These objectives are achievable, once a decision has been made about the nature of S4C's programme service.

- **It is recommended that S4C should operate a single core service after digital switchover with a facility – on occasions – to split the service.**
 - **It is recommended that S4C Digital introduce a 'red button' interactive service as soon as possible.**
9. Key decisions need to be taken soon. The first is the need to reach agreement with DCMS and other stakeholders about the nature of future programme services.

2 Remit

This independent review of S4C was commissioned by the Secretary of State for Culture, Media and Sport in March, 2004, in response to a request from the S4C Authority.

It was conducted by Roger Laughton, Head of Bournemouth Media School, Bournemouth University, assisted by Meurig Royles, the Welsh language assessor.

The terms of reference were as follows :

- i) *To assess, in the light of the Communications Act's re-affirmation of S4C's status and remit:*
 - *The efficiency with which S4C utilizes the resources made available to deliver its statutory responsibilities; and the extent to which other sources of funding, including efficiency savings, could make a greater contribution alongside that which S4C receives as grant-in-aid.*
 - *The extent to which S4C's latest strategic plan provides an effective basis to plan for the future.*
- ii) *To examine the particular implications for S4C of the Government's proposals on the future of digital broadcasting.*

It was anticipated that the review would include consultation with organizations and individuals with an interest in S4C. The reviewers were also invited to consider the outcome of and evidence from the recent internal review carried out by S4C.

It was noted that, during 2004, Ofcom will review S4C's contribution to public service broadcasting as part of its statutory requirement to carry out reviews into the wider ecology of public service broadcasting within the UK. Also, the relationship between S4C and the BBC will be considered as part of BBC Charter Review.

The reviewers were asked to complete their task by the end of May, 2004.

3 Methodology

Given the limited time available and the nature of the remit, this review concentrates on the key strategic and operational issues facing S4C in 2004, their background and how they might be addressed in the light of the Government's proposals for the future of digital broadcasting.

Issues concerning S4C's role in the future overall ecology of public service broadcasting in the UK have not been discussed in detail. But it has not been possible to ignore them completely. The role of S4C in the period of transition towards digital broadcasting has been changing rapidly. It will change further at the point digital switchover takes place. Decisions need to be made soon about the nature of future services.

A major activity of the review has been to read and digest a number of reports, internal and external, about S4C's activities that have been commissioned in recent years. By far the most important of these is the recent internal review document which summarises the key issues facing S4C and identifies priorities for the future.

The reviewers have also had the opportunity to speak at length to S4C's senior staff about the channel's operations.

In parallel, it has been necessary to understand current national strategies for achieving digital switchover. The Government's Digital Action Plan is now moving towards a firm timetable for digital switchover. This will have major implications on all broadcasters' strategies, not least S4C's.

Consultation within Wales, undertaken for this review, has been led by Meurig Royles, the Welsh Language Assessor, and has involved meetings with other broadcasters and producers and with organizations and individuals who have an interest in the future of broadcasting in the medium of Welsh. Inevitably it was not possible to consult as widely as the reviewers might have wished. A summary of the approach taken by the consultation, the key issues that emerged and a list of those consulted can be found in the appendix to this report.

The reviewers are grateful to those at S4C and elsewhere who have donated so much time to assisting the review process.

4 S4C in the pre-digital age

Two reports in the 1970s advanced the idea of a fourth channel in Wales, broadcasting in the medium of Welsh.

The Crawford Committee Report of 1974 recommended that a fourth channel in Wales would be the best solution to the issue of providing Welsh language programming.

'It was put to us forcibly', the Crawford Report argued, 'that, if the young watch mainly English language programmes, the decline of the Welsh language will continue...The need for more programmes in Welsh is seen as urgent if the present decline is not to go beyond the point of no return'.

Three years later, the Annan Report gave its support to Crawford's solution. In 1980, after a high profile campaign in which a leading Plaid Cymru politician threatened a hunger strike and after a delegation comprising Lord Cledwyn, Sir Goronwy Daniel and the Archbishop of Wales visited the Home Secretary, Sianel Pedwar Cymru (S4C) was established.

In its beginning, as now, S4C and the promotion of Welsh language and culture were closely linked.

The new channel provided twenty-two hours of Welsh programming in peaktime, extending the benefits of public service broadcasting to those whose language of choice was Welsh. It also broadcast a wide range of programmes in English from Channel 4, the other broadcasting newcomer in the early eighties.

The remit for the S4C analogue service, as described in the 2003 Communications Act, is essentially what it was in 1982 :

'The public service remit for S4C is the provision of a broad range of high quality and diverse programming in a service in which –

- (a) a substantial proportion of the programmes consists of programmes in Welsh;*
- (b) the programmes broadcast for viewing between 6.30 pm and 10.00 pm on every day of the week consist mainly of programmes in Welsh; and*
- (c) the programmes that are not in Welsh are normally programmes which are being, have been or are to be broadcast on Channel 4.'*

In practice, the channel that went to air in 1982 solved three problems. It recognized the long-felt cultural need for a Welsh language channel of high quality. It enabled the BBC and ITV to broadcast in the medium of English, thus reducing irritations felt by the English-speaking majority of viewers in Wales who had not appreciated why their primetime viewing was sometimes in a language they did not understand. And it allowed viewers in Wales to watch programmes in English from Channel 4, thus widening significantly the viewing base of the new channel.

For Welsh speakers, S4C was a channel in the mother tongue. For English speakers, S4C extended programming choice.

The then Home Secretary, Willie Whitelaw, described S4C as an *'investment in social harmony in Wales'*. S4C says it was *'the broadcasting solution to a particular combination of political and social issues'*.

Of course it was a solution for a viewing universe in which spectrum was limited. Cable and satellite were still a gleam in the eye. The broadcasting duopoly, the BBC and the ITV federation, controlled the two major revenue streams – the licence fee and advertising. The quality of programmes was high, choice lay between four channels (when reception allowed) and competition had yet to arrive.

Some idiosyncratic characteristics of S4C's current status stem from its initial settlement.

The largest programme supplier to S4C is now, as it always has been, a major public service competitor for viewers, BBC Wales. The 1980 Broadcasting Act required the BBC *'to supply to the Welsh Authority (S4C) a proportion of the television programmes in Welsh and to do so in a way which meets the reasonable requirements of the Authority'*. In the 1990 Broadcasting Act, this was adapted to state that *'it shall be the duty of the BBC to provide the Authority (free of charge) with sufficient television programmes in Welsh to occupy no less than ten hours' transmission time a week, and to do so in a way which meets the reasonable requirements of the Authority.'*

For the majority of its output, S4C's programmes are supplied by independent producers, many of whom are dependent on their relationship with the channel. S4C remains the only television market for Welsh language productions.

The government funding that enabled high quality programmes to be commissioned in the eighties was set at a level determined by S4C's need to compete with the other terrestrial networks. It was felt that the only television service directed at Welsh speaking viewers should reflect the same programme standards and values that viewers associated with programmes in English. To achieve this objective, the original funding formula linked the channel's grant to the level of television advertising income in the previous year.

The ability to access Channel 4's programmes to supplement the peak Welsh language service also enabled S4C to develop a secondary income stream from airtime sales. This supplemented the channel's revenues from the start by widening its appeal to the English language viewing audience in Wales.

With 520 hours a year of BBC programmes being supplied at no charge and with Channel 4's programmes available to strengthen the schedule in key areas, the eighties – which saw healthy growth of television advertising – were years of comparative plenty for S4C.

Culturally, the channel quickly achieved a position of strength, which it has maintained. S4C became one of the main agencies promoting the Welsh language.

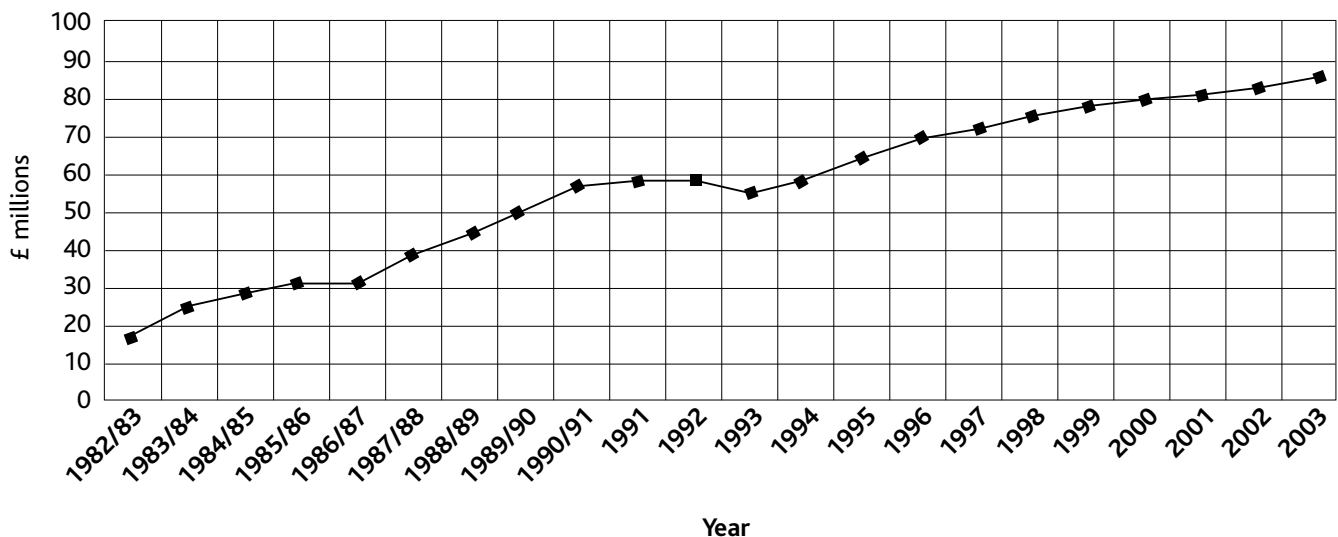
To complete the virtuous circle in which S4C found itself at the close of the analogue age, audiences grew steadily. Viewing shares and reach rose from the beginning of broadcasting until the mid nineties. Between 1985 and 1995, S4C's reach of Welsh speaking viewers rose from 75% to 85%. Its share of Welsh speaking viewers in primetime peaked at around 20% in 1996.

5 S4C: 1997-2004

In recent years, S4C has faced increasing competition for viewers, a new social and political environment in post-devolution Wales and slower growth in its government grant.

In the first fifteen years of S4C’s life, the grant rose from £25 million to £72 million in line with the increase in commercial television revenues. The 1996 Broadcasting Act replaced the established link between the channel’s income and television advertising revenue by a new link to retail price inflation, based on the channel’s share of advertising revenue (3.2%) in 1997. Since 1998, the grant has risen by around 20% to £86 million in 2004.

Government grant 1983-2004



Funding changed from financial year to calendar year in 1991.
 1991 grant figure is nominal, pro-rated from 9 month provision

So the second phase of the channel’s existence, a phase which has coincided with the explosive growth of new channels and the beginnings of the digital age, has been a period in which S4C has been exposed to a range of financial and commercial pressures more intense than anything experienced before.

S4C argues that it has not enjoyed the ‘digital dividend’ received by its major terrestrial competitors.

The BBC has had the benefit of the receipts from the sale of its transmitters, it has enjoyed considerable freedom to grow its revenues from commercial activity and it has achieved a licence fee settlement in recent years significantly ahead of inflation.

The ITV licensees were granted reductions in their licence payments as households convert to digital.

Channel 4’s funding formula, a ‘safety net’ never needed because of the channel’s commercial success, was discontinued in 1997, leaving the channel for a while as the most profitable broadcaster in Western Europe.

Thus, in return for a commitment to promote digital terrestrial broadcasting, the major public service broadcasters have seen their investment in new programmes and additional transmission reciprocated by a more benign licensing environment.

S4C made a commitment to the digital future, too.

As it has recently stated, S4C embraced digital television enthusiastically on four fronts :

- As a means of offering a broader choice of programmes and of viewing times to Welsh-speaking viewers;
- As a means of ensuring that viewers in Wales wishing to receive both Channel 4 and S4C were given the means to do so;
- As a means of increasing democratic participation by providing coverage of the National Assembly;
- Through the long term investment by its commercial arm in a UK digital multiplex operation.

The channel took an early decision to capitalize on the multiplex capacity awarded under the 1996 Act by launching S4C Digital, a service broadcast in the medium of Welsh, in November 1998. This enabled a Welsh language service to be offered outside peak hours. For the first time, households outside Wales were able to access S4C's Welsh language programmes, a service highly appreciated by Welsh-speaking 'exiles'.

In September 1999, in partnership with the BBC, S4C2 was launched, providing comprehensive live coverage of the National Assembly. The Digital College, a partnership between S4C and educational institutions in Wales, was an experiment in 2000, now ended, in using television as support for a national lifelong learning agenda.

Some have argued that S4C should have waited to secure additional funding before embarking on its digital services. But this was not a realistic option in 1997. Like the other public service broadcasters, the channel was expected to promote and progress the next wave of broadcasting expansion. Unlike the others, there was no licensing incentive to support the expansion.

For S4C, the added costs of the new digital services have been around £10 million a year. The additional digital transmission costs, on satellite and terrestrial, have been around £3.5 million a year, equivalent to over 4% of S4C's programme budget. Around £6 million a year has been spent on programmes transmitted only on the digital service. S4C has carried a significant additional cost since 1998 because of its decision to launch digital services.

S4C was able to make a specific digital investment. In 1997, it successfully applied for the licence for Digital Multiplex A. Through its commercial arm, S4C Masnachol, S4C then took a stake in SDN, a joint venture with NTL and United News and Media.

Unlike some other digital pioneers, SDN has survived difficult times. It remains a multiplex landlord, renting out space to channels on Multiplex A and is now benefiting from the success of Freeview. In considering S4C's future options, the stake in SDN and the capacity gifted to the channel in 1996 are now valuable assets.

Within Wales, S4C continues to have an economic impact alongside its role in promoting the arts and culture. It has been estimated that around 2000 jobs result directly or indirectly from S4C's activities, many located in the poorer regions of Wales. A report prepared for S4C by the Welsh Economy Research Unit in 2001 estimated there was a total disposable income impact in Wales of just over £33 million as a result of S4C's activities.

S4C has also played a leading part in supporting the development of the media skills base in Wales, largely working with the training organization, Cyfle, in partnership with Skillset. S4C has a consistently strong record in this area.

With the coming of the Assembly, S4C's role as a cultural institution within Wales is changing. The Assembly itself is developing national cultural and bi-lingual policies. The Welsh Language Board takes the lead in the development of strategies to ensure Wales will become a bi-lingual society.

Increased competition for viewers, and the impact of this on S4C, has been the third major theme of the past seven years. Audience shares and reach have declined, both for Welsh speakers and for non-Welsh speakers. All public service broadcasters have experienced falls in the size of their audiences, but S4C's appears to be the steepest. As a consequence, S4C has undertaken detailed qualitative research into the viewing habits of its audience.

This research – and what it reveals about the make-up of S4C's viewers – is one of a number of key issues facing S4C in 2004 that will be discussed in the next section.

6 Key Issues in 2004

S4C's Funding Formula

If the funding settlement in S4C's early years could be described as generous, the annual RPI-linked grant since 1998 would have put pressures on the organisation even if S4C had not chosen to invest in digital. These pressures have been passed on to S4C's suppliers, increasing the natural tensions between buyer and seller. It is also apparent, from the consultation, that some viewers have a perception production values are falling as a result of too restrictive programme budgets.

Broadcasting cost inflation has run ahead of RPI for many years. Talent and sports rights costs have increased rapidly in a competitive market where pay-TV revenues have supplemented the licence fee and advertising income. S4C saw its cost per hour for commissioned programmes rise from around £23000 in 1999 to around £35000 in 2002.

The end game is obvious. A moment arrives where, in order to maintain quality production values, you have to cut back on commissioned hours or increase your proportion of repeats. If you do both, you store up problems for the future.

S4C has been encouraged to seek other sources of revenue and has had some success in this strategy. However, the most valuable of these revenue streams comes from advertising sales, where the channel has seen a steady decline in revenue over the past five years. This decline will continue as Channel 4 viewers drop away.

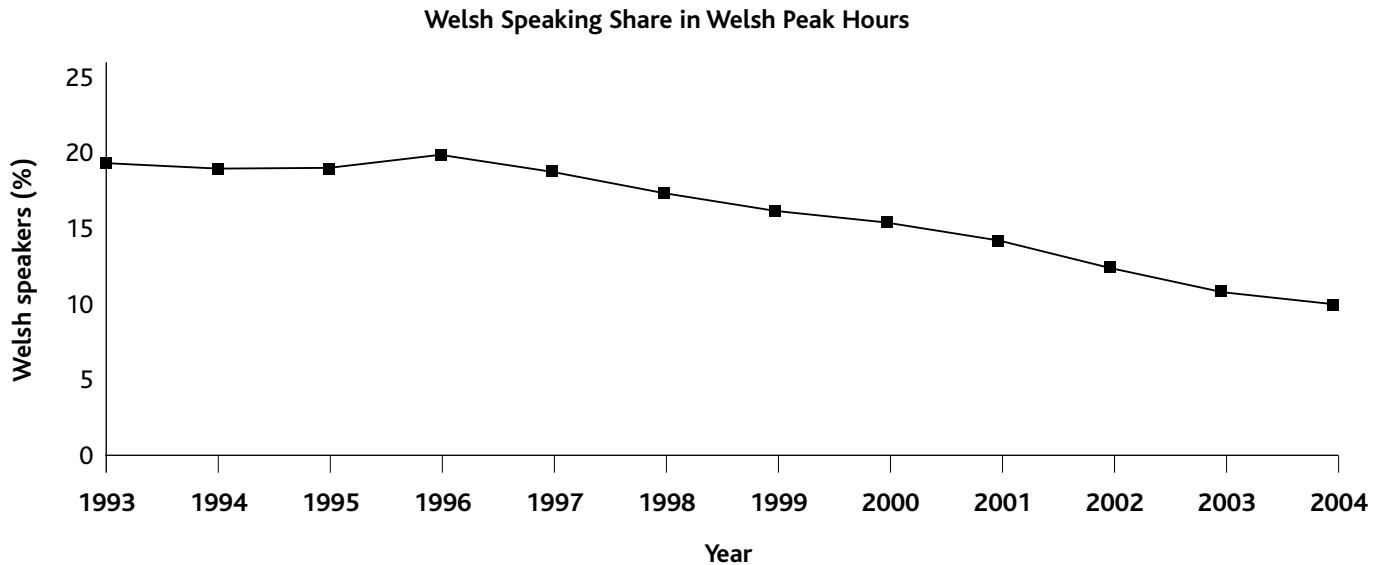
Can S4C attract enough funding to enable it to provide a high quality programme service in the digital age?

S4C's viewers

Major changes are taking place in television audiences throughout the UK; these are described in Phase One of OFCOM's Review of Public Service Broadcasting. S4C audience shares and reach have declined with the coming of multi-channel television. There are a number of reasons for this:

1. All PSB channels have lost share as the number of overall channels increases.
2. Digital penetration, currently estimated at 70% for individuals, is high in Wales.
3. Many viewers who watched S4C in order to access Channel 4's output no longer need to do so.

Audience research evidence always needs to be handled with care, particularly in Wales where sample numbers are small. But there are clear trends. Between 1996 and 2004, S4C's share of the Welsh-speaking audience in Welsh peak hours fell from around 20% to around 10%. In all hours, its share of Welsh speakers fell from around 15% to around 7%. Its weekly reach to all viewers in all hours fell by a third.



Behind the headlines, the issues get even more complex.

Once choice is available, the loss of viewers for Channel 4 programmes is understandable. Eventually, this should enable S4C to strengthen its own distinct programming strategy. But, if a mono-lingual service replaces a service broadcasting in two languages, one consequence will be lower overall viewing levels.

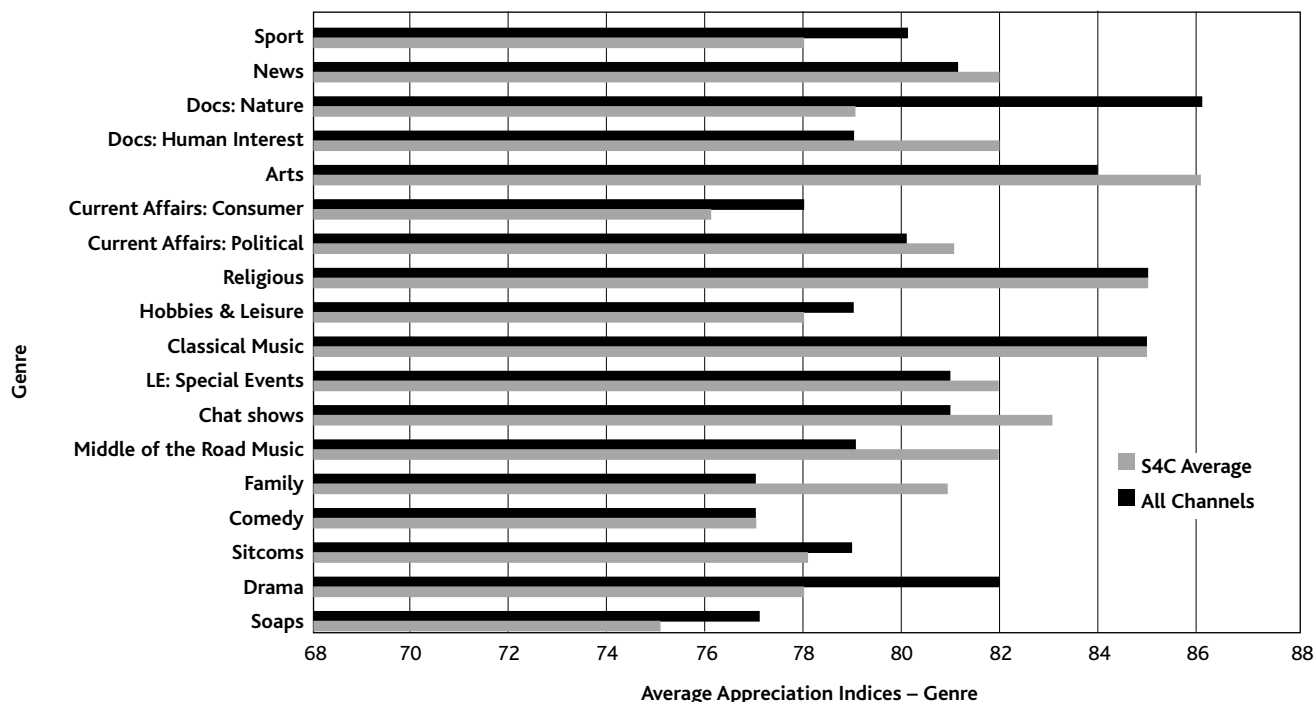
How do you define a Welsh speaker?

Since 1999, S4C embarked on extensive research, both qualitative and quantitative, into understanding this better. These are the key conclusions:

1. The Welsh-speaking audience is made up of individuals with very different levels of fluency in understanding, speaking, writing and reading in the medium of Welsh. Welsh speakers are defined as those who can, as a minimum, understand and speak **some** Welsh.
2. Using the evidence of the 2001 Census, there are approximately 582,000 Welsh speakers (21% of the population of Wales). The comparative figures in the 1991 Census were 508,000 (19%).
3. Only 275,000 Welsh speakers understand, read and write Welsh **extremely well**.
4. 57% of Welsh speakers live in a Wholly Welsh Speaking Home; 43% live in a Partly Welsh Speaking Home. Even in Wholly Welsh Speaking Homes, English is the main language used in 38% of cases.

S4C's preferred benchmark, the total number of viewers tuning into the Welsh language service in Welsh hours during the average week (i.e.its reach), has stayed around 700,000 for the past three years. Its weekly reach to Welsh speakers in Welsh hours appears to have stabilized at around 230,000 – approximately 40% of the Welsh-speaking audience.

S4C's Appreciation Indices average by genres v All Channels 2003



Base: Welsh Speakers/Welsh Language Programmes, samples over 25. Source: NOP

The key target audience of Welsh speakers is beginning to grow after a long period of decline. 41% of young people are now categorized as Welsh speakers, up from 26% in 1991. The problem for S4C is that many of them do not live in Welsh-speaking families, so their viewing may not be of Welsh language programmes.

Over recent years, S4C has conducted extensive qualitative research into the views and preferences of the Welsh speaking audience. This has identified five broad categories into which Welsh speakers can be grouped: 'intelligentsia', 'relaxed', 'traditional', 'progressive', and 'outsiders'. This research shows there are wide divisions of taste between traditional Welsh speakers and the 'new Welsh'.

S4C is aware of the challenge it faces in satisfying all its constituencies. Its current internal targets are stretching; an average weekly reach for the Welsh language service of over 700,000 (which, by definition, must include a significant proportion of non-Welsh speakers), and audiences of more than 100,000 for each of its twenty most popular programmes. But it will also be aware of the need to ensure that more than four out of ten Welsh speakers, the current figure, access its Welsh peak hours service.

Public service broadcasters pay more attention than commercial broadcasters to appreciation indices which show how highly viewers value the programmes they watch. A programme can have a small audience and a high appreciation index if its appeal is only to a minority. But, if such a programme is not appreciated highly, broadcasters know they have a problem. Using these criteria, S4C's appreciation indices are comparable to those of other channels across a range of genres. In some cases, such as family entertainment, music and the arts, the indices are significantly higher than those of other channels.

The central question that arises from the audience research evidence is what kind of service will be best for Welsh speakers in the future. If the universe were larger and if funding were not a problem, a multi-channel platform – like the BBC's – might be appropriate. On the other hand, fragmenting an already small audience might be crossing the divide between broadcasting and narrowcasting.

So how do you satisfy all the different segments of the Welsh-speaking audience? Can a PSB programme with high production values be justified if it reaches fewer than 20,000 viewers?

The Nature of the Programme Service

Since 1998, S4C has transmitted three services – S4C, S4C Digital and S4C2.

In October, 2001, when S4C last made its case for a more generous funding settlement, it summarized its achievements as follows :

'We have harnessed the greater capacity available on digital platforms to offer an expanded service. We now broadcast 84 hours of Welsh programmes a week on S4C Digital compared with 35 hours in analogue. In partnership with the BBC, we provide live coverage of the National Assembly for Wales on S4C2. With the launch of the Digital College we have also begun to harness the power of digital television to support life long learning.

We have been able to launch the digital service without damaging the core service we provide on analogue because the peak-hour programmes we broadcast on analogue are also the core of the service on S4C Digital. What the digital channel offers in addition is extended coverage of our national festivals, additional opportunities to view our most popular programmes and greater use of archive material.'

The claim that the digital service has not damaged the core service needs to be put into the context of S4C's overall performance.

S4C is transmitting around 28 hours of new Welsh language programmes a week on the analogue service and around 15 hours of new low-cost Welsh language programming a week on S4C Digital.

The additional cost of the digital only programmes is approximately £10 million, around 10% of the channel's revenue. There is certainly a contrast, apparent to viewers, between the production values of the programmes transmitted as part of the core S4C remit and those of the digital channel, where the cost per hour is £3,500.

Since 2001, S4C has taken a number of tough decisions, notably in closing its award-winning animation unit in 2003. The Digital College experiment ended too, when partner funding failed to materialize. The channel has continued to take 'salami slices' out of both programme and non-programme budgets.

The primary response to the pressure of sustaining both S4C and S4C2 has been to increase the proportion of repeats in the schedules.

During 1999, the first full year of the digital service, S4C transmitted on average 81 hours of Welsh language programmes a week, including BBC hours. By 2003, the hours transmitted had risen to 85, but the proportion of repeats increased, from 32% in 1998 to 49% in 2003. Nothing intrinsically wrong with this. Giving viewers more chances to see programmes as channels multiply is the right strategy as long as you have the capacity to keep on making new programmes.

However, in 2004, it is fair to conclude that maintaining the new digital services puts strains on the core service, even if these may not yet be judged to add up to 'damage'.

The fundamental challenge facing the new Controller of Programmes is to manage the transition from S4C's current bi-lingual service to one that meets the needs of viewers after digital switchover. The full impact of the loss of the supply of programmes from Channel 4 will be felt most keenly at that point.

The key target audience will remain Welsh speakers, expecting Welsh programmes in all genres with production values as high as those of the English language public broadcasters.

The new Controller has clear views about the need to ensure creative excellence in specific areas – music, factual, drama, sport and childrens. She plans ‘event’ programming, supported by targeted marketing. She will also need to plug a noticeable gap in the service – the lack of ‘red button’ interactivity, an add-on which the next generation of viewers is beginning to take for granted on other public service channels.

How best can S4C maintain range, diversity and quality in the digital age?

How far can the budget stretch? Two languages, as before, or one? Separate services for ‘traditional’ Welsh speakers, for ‘relaxed’ Welsh speakers and for ‘new’ Welsh speakers? Or a core service?

The nature of the future programme service is the key issue S4C needs to determine.

The ‘Reasonable Requirement’

S4C describes its relationship with the BBC as a creative partnership. In some ways, it more resembles a relationship between siblings in which one has significantly more access than the other to mother’s milk.

The ten hours of programming provided by the BBC each week contain two pillars of S4C’s programming strategy, its news service and its daily soap, *Pobol y Cwm*. The production values of these, and of all the programmes supplied by BBC Wales, are high. The BBC claims that its programming fills 30% of S4C’s hours and delivers 40% of S4C’s analogue audience. The BBC also notes that it has editorial independence for the output it supplies to the broadcaster, S4C, which has scheduling and compliance responsibilities.

The BBC’s obligation, agreed in 1982, is to deliver 520 hours of programmes a year free of charge to S4C to the ‘reasonable requirement’ of the S4C Authority.

In practice, the relationship has developed over the years. The BBC notes that it gives S4C access to other BBC programme rights, it provides support with subtitling, BBC Radio Cymru cross-promotes on occasions and it provides editorial coverage of the Welsh Assembly plenary sessions. For its part, S4C notes that it pays costs associated with the production of *Pobol y Cwm*, both of the weekly omnibus edition and of thirty episodes of that series in the summer, to enable the series to run all year. S4C also contributes towards the costs of rugby coverage.

Despite the tensions inherent in the structure, the arrangements work. But it is not a partnership of equals. Particularly since 1996, the BBC – in Wales as elsewhere – has been able to invest additional sums in new programming, including an exciting range of interactive services. While BBC Wales can offer coverage on television in English and on radio and online in English and Welsh, S4C broadcasts in one medium and, in its digital service, in one language.

During the eight years between 1995/96 and 2002/03, S4C estimates that the amount spent by BBC Wales on Welsh language programming has remained broadly constant in cash terms. The average amount spent on programmes produced for S4C over this period has been £16.7 million. When expressed as a percentage of the BBC’s overall public expenditure, the amount spent on Welsh language programmes fell by 33% over this period.

Over the same period, the BBC’s total expenditure in Wales on English language programmes across both BBC and BBC2W increased from £16.2 million to £29.7 million.

Expressed as a percentage of the BBC's total public service expenditure, this is an increase of 25% between 1995/96 and 2002/03.

Given the goodwill on both sides that undoubtedly exists, there seems no reason why there should not now be a review of the 1982 settlement. It is interesting to note that a draft Statement of Intent was drawn up in 1990 by BBC Wales. At the time, it was not agreed by S4C.

The draft stated :

'If, in future, there is an expansion of S4C's service in Welsh, the BBC would be willing to increase its contributions in response to a request from the Government, providing that appropriate finance is made available either through an increase in the licence fee or by some other means acceptable to the BBC.'

If that intent remains, there is certainly room for a conversation, particularly at a time of Charter Review,

The BBC's submission to the DCMS review recently stated :

'It is clearly essential that the BBC with its historic commitment and long-standing responsibilities for Welsh language broadcasting should be a key stakeholder in discussions about the future of Welsh language broadcasting...We look forward to detailed consideration of the relationship between the BBC and S4C as part of BBC Charter review.'

A revised settlement with the BBC for the digital age is a target worth achieving and a priority for all who care about the ecology of public service broadcasting in Wales.

Partnerships in post-Devolution Wales

The creative partnership with BBC Wales goes back over twenty years. Another task for S4C in 2004 is to maintain and, in some cases, to build solid relationships with other organizations committed to the economic and cultural development of Wales.

S4C recognizes the need to play its part in the National Policy Framework to increase the percentage of Welsh speakers within Wales.

The policy document, IAITH PAWB, states :

'Broadcasting plays an important role in reinforcing many of the Government's wider language policies and underlines the status of the language...Television in particular can be an important source of support for those learning the language...Crucially Welsh language broadcasting also helps to ensure that young people with creative talent are provided with a platform to build that talent and to build their careers through the medium of Welsh.'

In our consultations, we found widespread recognition of S4C's important role in supporting the work of the Assembly. We also heard some concerns that S4C was not as engaged with the Assembly's cultural and economic agendas as it could be.

Walking the tightrope between providing a viewer-focused programme service, independent of government, and acting as a major promoter of Welsh language and culture has been, and always will be, one of S4C's most difficult balancing acts.

The traditional broadcasting solution is to ensure that focus remains on the citizen/consumer, OFCOM's composite description of the viewer. The channel has already stated it plans to increase its commitment to event-based programming and to the marketing that supports such programming. This is a sound strategy for the Welsh language national public broadcaster.

S4C's Role and Remit

Our brief was not to question S4C's public service remit, which was confirmed in the 2003 Communications Act.

The Welsh Authority's public service remit for S4C Digital is defined in the Act as follows :

'The public service remit for S4C Digital is the provision of a broad range of high quality and diverse programming in a service in which a substantial proportion of the programmes consists of programmes in Welsh.'

This catch-all description may be all that is needed for the future. But it is probable that S4C's strategic review will highlight the need for a revision of the remit to reflect the type of service deemed appropriate for the digital age.

With seven out of ten Welsh viewers already watching digital television, the time for decisions about S4C's future remit cannot be postponed too long. The combination of S4C's own strategic review, OFCOM's review of Public Service Broadcasting and BBC Charter Review offers an excellent opportunity to address this.

7 How efficient and effective is S4C in managing its costs?

When S4C was established, its funding was set at a level that was determined by cost structures associated with the major terrestrial networks and by its remit.

The Communications Act of 2003 defined the public service remit of S4C as *‘the provision of a broad range of high quality and diverse programming in a service in which –*

- (a) a substantial proportion of the programmes consists of programmes in Welsh;*
- (b) the programmes broadcast for viewing between 6.30 pm and 10.00 pm on every day of the week consist mainly of programmes in Welsh;*
- (c) the programmes that are not in Welsh are normally programmes which are being, have been or are to be broadcast on Channel 4.’*

This description reflects S4C’s original remit. In practice, it has meant a single service, containing approximately 1800 hours a year of Welsh language programmes supplied mostly by independent producers, 520 hours of Welsh language programmes supplied by BBC Wales and, in recent years, upwards of 4500 hours a year of programmes in English from Channel 4.

The remit of S4C Digital was defined in the 2003 Act as *‘the provision of a broad range of high quality and diverse programming in a service in which a substantial proportion of the programmes consists of programmes in Welsh.’* As a matter of policy, S4C Digital is currently a Welsh language service, broadcasting over 80 hours a week.

OFCOM summarises the four basic objectives identified by the 2003 Act for public service broadcasters as :

1. **social values** : education, cultural identity, informing the democratic process, supporting a tolerant and inclusive society;
2. **quality** : production values, standards, innovations;
3. **range and balance** : treatment of a range of subject matters across different genres, sub-genres and formats at all times;
4. **diversity** : catering for different/minority audiences and communities.

How well does S4C perform its core functions as a public service broadcaster?

S4C’s internal review document outlines the channel’s performance against these objectives in Chapters One and Four. Although the channel, like other broadcasters, may well need to develop a more sophisticated range of criteria by which its performance can be judged, there is ‘prima facie’ evidence that it currently achieves the four basic objectives comfortably. Particular strengths would seem to be cultural identity, range, standards and the awareness of minority audiences within the Welsh-speaking communities. Areas for improvement, to echo some of those consulted by the reviewers, would almost certainly include innovation and production values. There is a perception, not necessarily backed by audience research, that quality has declined.

In terms of S4C's efficiency, key points to note are that :

1. S4C now broadcasts two public broadcasting services and one licensed service (S4C2) with no additional grant and with no change in its core remit;
2. Channel 4's programming is a diminishing asset on S4C which will disappear at digital switchover, if not before;
3. The BBC's contribution to S4C's operations is what was agreed in 1982;
4. The cost of making original programmes has run ahead of RPI for many years.

The overall evidence is that S4C is delivering its remit, and is doing so at least as effectively in the past.

Can it do better?

The reviewers focused on two broad areas of costs : the programmes, and the overheads linked to the service.

Programme Costs

S4C has managed to control its programme costs over the past five years in three ways:

1. By increasing the proportion of repeated programmes within the schedule;
2. By reducing slightly the number of new Welsh language programmes commissioned each week;
3. By rigorous cost control of its independent suppliers.

All channels recognize the need for viewers to have more opportunities to view original programmes in a multi-channel world. So the increase in the proportion of repeats – from 15% to 27% in S4C Welsh hours between 1998 and 2003 – is good practice. The proportion of repeats on S4C Digital rose from 32% to 49% between 1999 and 2003, again not an impossibly high figure and one which explains why it has been possible to run the additional public service channel for around £10 million – including transmission costs.

Over the period from 1999 to 2003, there was a slight fall in the number of new programmes transmitted on the main analogue service, from 29.4 hours a week to 27.7 hours a week.

During the same period, there were, on average, an additional 20 hours a week of new low-cost digital-only programmes transmitted on S4C Digital. But the number of new digital-only programmes is falling. In 2003, 15 hours a week of such programmes were transmitted, compared with 26 hours in 1999.

Taking analogue and digital transmissions together, this means that first-run programming averaged 55 hours a week in 1999 and 43 hours a week in 2003. This is the consequence of the need to protect programme quality in the light of programme cost inflation and of slow growth in the Channel's revenues.

Between 1999 and 2002, the average cost per hour of a newly-commissioned programme on S4C rose from £23000 to £35000. By managing the programme stock prudently, as described above, the cost per transmitted hour only rose from £15,200 to £17,189.

S4C estimates that its budgets have fallen further below those of the BBC than before in recent years. In 1995, S4C's cost per hour in six major genres was 41% of the BBC's cost. In 2002, S4C's cost per hour in the same six genres was 33% of the BBC's.

The third area in which S4C has managed to control costs is by putting increased pressure on its independent producer suppliers. The Graham Report in 1999 noted that '*S4C is a low cost producer, using a group of companies who (mainly) do not produce elsewhere.*' This has resulted in tensions between S4C, the commissioner-broadcaster, and the independent sector. Last year, S4C's Chief Executive commissioned an external report on the channel's relationship with the independent sector. As a result, more regular dialogue takes place with that sector.

The overall picture is of a channel that has been tightening its belt for a number of years. Given S4C is the only source of Welsh language programming, there are few

opportunities to supplement the programme service with bought-in programmes. Experiments have taken place with sub-titling and dubbing programmes from other television cultures, but bi-lingual Welsh viewers have shown themselves resistant to these tactics.

Unless S4C changes the policy of positioning itself as a broadcaster in the medium of Welsh or reduces its broadcast hours, it is difficult to see what more can be done to reduce the costs of the programme service without diminishing its public broadcasting values.

Overhead Costs

S4C has had a long-standing target of ensuring that its overheads, including marketing and audience research, represent no more than 10% of its total programme expenditure. It has achieved this since 1999.

If marketing, press office costs and audience research are included within programme costs, in line with current industry practice, S4C's current level of overhead falls to 5.2% of total expenditure. The comparable figure for the BBC is 15%. If the BBC is seen to be a special case, S4C still undercuts Channel 4 and RTE, where the percentages are 6.1% and 7.2% respectively.

The major ingredient of S4C's cost base, as it is for most creative organizations, is its staffing budget. S4C's salary levels are below the industry norm in most areas, reflecting the lower cost of living in Cardiff and lower salaries in broadcasting outside London.

Staffing numbers have risen from 127 to 205 since 1995, a consequence of the digital developments and of decisions, after internal reviews, to move some functions, like catering, in-house. In each case, S4C believes the most cost-effective and efficient approach was taken.

The reviewers looked in more detail at three of S4C's cost centres – engineering and transmission, marketing and sub-titling. These are described in Appendix Two. In each case, S4C operates efficiently.

S4C's annual plan includes provision for regular reviews of key departments. This is good practice, not just to see where costs can be cut but also to determine whether today's spend still reflects the original strategic aims. Whilst S4C cannot mimic the structures and cost levels of a cable or satellite channel, it would also be helpful to benchmark practice against low-cost channels as well as against the other public service channels.

Summary

S4C has become a more efficient broadcaster since 1997. On a reduced budget, it has launched significant additional services without reducing its public service obligations.

By comparison with other public service broadcasters and with the Channel's own performance 10 years ago, both the programme costs and the overheads represent good value for money.

It is recommended that S4C should continue to benchmark its programme and overhead costs against other broadcasters and to review designated areas of its operations on a regular basis.

8 Can S4C increase its revenue from sources other than the DCMS grant?

There are three major streams of commercial revenue currently available to S4C through the activities of its trading subsidiary, S4C Masnachol.

1. Airtime sales and sponsorship;
2. Programme sales, pre-sales and co-production;
3. Multiplex operation, via SDN.

In addition, S4C has explored other commercial opportunities in recent years, like channel management.

Airtime sales and sponsorship

During the 1990s, S4C's income from commercial airtime sales rose steadily, reaching a peak of £10.2 million in 2000.

However, with the fall in S4C viewing and the opportunity for English language viewers to watch Channel 4 in Wales for the first time on digital, a steep decline has set in since 2000. Income for 2004 is estimated at around £7 million.

S4C's arrangements with its current sales house ends in 2005. At this point there is no obvious replacement.

Looking ahead, as analogue switch off approaches, the channel's revenue from advertising sales is likely to continue to fall. The majority of the current sales income is linked to viewing of Channel 4's programmes. The Welsh language audience is too small to be particularly attractive to advertisers.

S4C Masnachol has been active in generating sponsorship income – £1.2 million since 2000.

On the most optimistic scenario, it is difficult to see airtime sales and sponsorship together generating more than £5 million in 2006. By 2009, it would be realistic to plan for a significantly lower outcome.

Programme Sales, Pre-Sales and Co-production

S4C has had a significant presence internationally for many years.

For many years S4C International (S4C I) has attended the world's television markets where it has established a reputation as a competent niche distributor. There are many advantages for S4C in owning an in-house distribution arm, but S4CI's international sales operation is unlikely ever to be in a position to deliver a significant return back to its parents.

Now there is a new factor, as S4C comes to terms with the recommendations of the Programme Supply Review which offers independent producers, whose programmes make up the bulk of the catalogue, more clout in their future commercial relationships with the channel. Larger independent companies

are likely to want greater control of their distribution income in future years, which may adversely affect the ability of S4C to renew its catalogue.

The channel needs to re-think whether owning a programme sales house is worthwhile. However, any savings generated by out-sourcing programme distribution would be small, given the need for a rights management structure to support S4C's active pre-sales and co-production operations.

It is recommended that S4C's programme distribution operations be reviewed in the light of Programme Supply Review.

S4CI estimates it currently generates around £2 million a year in co-production finance for programmes to be broadcast on S4C. This is inward investment into Welsh production and added value for viewers in Wales.

S4C's value as a co-producer is recognized worldwide and, as S4C states in its internal review, *'represents an important shop window for Wales.'*

Co-production needs to continue to be an integral part of S4C's programme strategy. S4C has a strong reputation in this area, with many partners who want to work with the channel again.

In earlier years, S4C was able to invest in Welsh language films, Oscar nominees like *Solomon and Gaenor*. The feature-length animated life of Jesus, *The Miracle Maker*, achieved peaktime showings on American network television and sold to 35 countries. S4C still hopes to be able to participate in major projects to bring lustre to the channel and to ensure viewers have events at the heart of the peak schedule. But, as other broadcasters have also discovered, investment in British film is more of a cultural than a commercial decision.

SDN and S4C's Digital Capacity

As a result of the 1996 Broadcasting Act, S4C was gifted multiplex capacity in Wales. It also used the enhanced commercial powers contained in the Act to take a one-third share in SDN Limited, which was awarded a digital licence in 1998. Its partners are NTL and United Business Media. The gifted capacity and the stake in SDN are both assets of value to S4C.

Investment in SDN is managed through S4C Masnachol. The early years were difficult, and the collapse of ITV Digital, with whom SDN had a joint venture to supply film channels, posed a threat to the venture. But the successful launch of Freeview has enabled SDN to rent all its capacity.

As a result SDN is due to begin to repay the loans made by its owners in 2004, and expects to be in profit by the end of its twelve year broadcasting licence. This represents a steady stream of income for S4C.

Looking ahead, S4C has four broad options :

1. To keep the gifted capacity, and to maintain the stake in SDN.
2. To lease the gifted capacity, and to sell the stake in SDN.
3. To keep the gifted capacity, and to sell the stake in SDN.
4. To lease the gifted capacity, and to maintain the stake in SDN.

The decisions about what to do are commercial decisions for S4C. Timing the decisions is both a challenge and an opportunity.

The BBC Relationship

The BBC supplies a third of S4C's original programmes, including its daily soap and the news service, around 520 hours a year.

As discussed earlier, an examination of the relationship between S4C and BBC Wales is overdue. The proportion of the licence fee, represented by the BBC's contribution to its partnership with S4C, has fallen since 1982 and, particularly, since 1997.

A way forward would be for S4C and BBC Wales to agree a range of costed programmes and services each year to be supplied by BBC to S4C, equivalent in value to the share of the licence fee represented by BBC Wales' supply of programmes and services to S4C in 1997.

The areas for discussion could include :

1. Additional programme supply;
2. Sharing a multiplex in Wales;
3. The relationship between S4C and BBC Radio Cymru;
4. Transmission;
5. Interactive services;
6. Access to Welsh language archive programmes;
7. Sports rights.

If the BBC can be persuaded that it is in the interest of its overall programme strategies to embark on a closer partnership and if S4C can be persuaded of the value of a closer relationship with its giant sibling, Welsh viewers will benefit.

It is recommended that, as part of the Charter Review process, the BBC and S4C should be invited to agree a formula for the supply of programmes and other services by BBC to S4C, financed by the licence fee, appropriate for the current needs of public service broadcasting in the medium of Welsh.

Strategic Partnerships in Wales

Some of those consulted by the reviewers believed that S4C could play a more pro-active role in progressing the cultural agenda of the Welsh Assembly in partnership with other organizations.

It is also worth noting that there are now fiscal incentives available to independent producers that are not available to S4C. The Welsh Development Agency pointed the reviewers to a broadband project where the three co-funders were the WDA, Five and a Welsh independent producer. It is anticipated that the proposed Creative Industries strategy in Wales will include generic and bespoke business support for independent digital content producers.

Other such opportunities may enable S4C to support projects in which the channel's role is to act as the video billboard for a digital content joint venture in a range of media. Had a Welsh Film Fund been launched, S4C would have been a natural co-production partner within Wales.

The test, as ever, will be whether an individual project makes sense. S4C showed its willingness to invest in a partnership of this kind when the Digital College was launched in 2000. Wisely, the channel ended the experiment when it was clear that not enough partner support was in place. But S4C was right to try to make an ambitious educational project work.

S4C still plays a central creative role in promoting the Welsh language, and there will be many future opportunities to partner other Welsh cultural or economic organisations in specific projects. As S4C identified in its internal review :

'S4C will need to place a greater emphasis on developing partnerships and increasing the number of organisations with whom it might usefully co-operate as a broadcasting partner.'

It is recommended that S4C should seek to play a more integral role in developing the national cultural and economic agendas in Wales.

Other

S4C Masnachol has looked at a range of different commercial opportunities in recent years. S4C is currently seeking an extension to its commercial powers in line with the provisions in Section 206 of the Communications Act 2003 to facilitate this.

For example, attempts are being made to develop the business of managing the transmission of third party channels from an area where S4C has a sunk cost, summarized earlier. But it has proved difficult to compete on price with major providers who have a specialized and larger technical infrastructure.

S4C Masnachol also supported early development of new channels like *The Nursery Channel*. But, in this case and others, it pulled back when its investment criteria could not be met.

9 The current Corporate plan : a base for planning S4C's future?

Currently, S4C is operating on the basis of a three-year corporate plan, covering 2004 to 2006.

The core aim is *'to provide a comprehensive, high quality, Welsh language television service that reflects and enriches the life of Wales'*.

Four supporting aims are identified :

1. *To provide every day a wide range of programmes which, taken as a whole, are relevant and attractive to all ages and interests in every part of Wales.*
2. *To contribute to the quality of life by adding to the provision of public education, information and entertainment services, to the extent that this is consistent with fulfilling our core aim.*
3. *To ensure that core and supplementary services of the highest possible quality are available easily and free of charge to the broadest possible audience.*
4. *To deliver excellence and best value within S4C and work with others to promote creative excellence and to develop and strengthen the communications industry in Wales.*

Each aim is supported by a number of objectives and, for 2004, a number of specific targets. S4C will achieve most of its 39 targets in 2004.

The corporate plan, in other words, is a 'steady as she goes' approach to the day-to-day operational management of the channel, assuming existing resources and current funding. It is backed by a series of individual departmental plans and objectives, all geared to achieving the aims, objectives and targets of the plan and most of them measurable.

S4C's internal review document, *A Welsh Language Television Service Fit for the 21st. Century'* (summarised in Appendix 3), contains a clear statement of the channel's aspirations and an introduction to the debate, to which this review is a contribution, that will lead to a strategic plan that can be agreed between DCMS and S4C.

It is right that this new strategic plan should emerge after the debate generated by the internal review has taken place. It is also worth noting that the outcome of three processes external to S4C – the government's Digital Action Plan, BBC Charter Review and OFCOM's Review of Public Service Broadcasting – will also need to be taken into account for any plan to be realistic.

10 Implications for S4C of the Government's proposals for the future of digital broadcasting

Government has stated that it is committed to digital switchover in the next decade. Already more than 50% of British households are watching digital television. In Wales well over 70% of individuals have access to digital services. Overall, since its launch in 1998, digital TV has grown faster than almost any other electronic household good or service and the UK is recognized as a global leader in digital TV adoption. Consumers have the choice of digital satellite, digital cable or digital terrestrial services.

A report, summarizing the cost benefit analysis of switchover, was carried out for the DTI and the DCMS last year. It suggested there are quantifiable benefits in NPV terms of around £1.5 to £2 billion, depending on timing. It emphasized that switching off analogue transmission is less wasteful than maintaining dual transmission systems over a lengthy period.

Above all, it argued that people as consumers and as citizens will get more choice, better quality, a wider range of services and access to all those services in the digital world.

Switchover will be a phased process, perhaps over four years. It will happen region by region across the British Isles. Currently detailed plans are being prepared that take into account a wide range of issues arising from such a process. A comprehensive Digital Action Plan is being implemented *'to ensure that the criteria set for switchover are met so that Ministers can, if they choose, take the decision to proceed to full switchover by ordering the switching off by 2010 of analogue terrestrial transmissions.'*

In 1999, Government set two conditions for switchover. First, households who can currently get the main public service channels in analogue form should be able to receive them in digital form. Second, digital TV should be affordable for the vast majority of households, estimated at 95%.

OFCOM's current estimate is that this second target will not be reached in 2010 without a firm commitment to switchover and co-ordinated action to overcome the obstacles to implementing that commitment.

There are some issues specific to S4C in Wales. Although S4C – like other broadcasters – expects cost benefits after the analogue signals are switched off, it is by no means certain this will be the case on Multiplex A, on which S4C's services are currently transmitted. The additional costs per viewer of providing a full public service to viewers in Wales are likely to be high because of the hilly terrain and the scattered populations. There is a strong case for S4C's digital public service to be transmitted on the same multiplex as one of the other public broadcasters in Wales, opening up the possibility that Multiplex A will not need to provide the coverage of a public service broadcaster.

This decision will need to be taken soon.

In such circumstances, S4C would remain in possession of its existing digital assets. S4C has contractual obligations to SDN as well as its gifted capacity. It would wish to keep the benefit of these assets.

So, despite S4C's record of commitment to the Government's objectives, described in Section 5, the channel's response to the Digital Action Plan has been cautious:

'S4C is unable...to say more than that it supports the principle that S4C and S4C2 should be found space in Wales, on a public service multiplex which offers coverage at least equivalent to that available to the other public service broadcasters, on terms which do not disadvantage the programme service which it provides or undermine the commercial arrangements by which it has succeeded in supplementing the resources available to it.'

Whether there would be room for two S4C services on a public service multiplex is another question that will arise soon.

As the Government's Digital Action Plan progresses, with a pilot in Wales planned for later in 2004, answers cannot be long postponed.

It is recommended that S4C's digital service(s) should be transmitted on the same multiplex as other public service broadcasters in Wales.

11 S4C Review : a Welsh language television service fit for the 21st century?

In March, 2004, S4C published the outcome of its own internal process of interrogation and review. The key question the review addressed is what kind of Welsh language television service is appropriate for the 21st century, after the analogue service is switched off. Much of the evidence in the internal review has been cited in this external review.

S4C's summary of its own review is attached as Appendix 3. The review itself is a comprehensive description of the issues facing the channel. At its conclusion, the review identifies the issues that S4C believes will be critical to the channel's continuing success.

These are:

1. Digital terrestrial roll-out for S4C to the same extent as other public service channels, without negative impact on the programme budget;
2. An appropriate level of prominence for S4C's services, including the children's programmes strand, on all Electronic Programme Guides in use in Wales;
3. Additional resources to improve the quality of programmes;
4. Additional resources to allow expansion of the range and diversity of the Welsh-language television service;
5. Additional resources to allow the development of interactive services and exploitation of other opportunities afforded by new technology, including broadband;
6. The establishment of effective working partnerships which can realistically and consistently function so as to create substantial additional value from S4C's activities.

Although these issues are not prioritized, the reviewers understand that, broadly, the order listed above is the order of priority. So addressing the issues in this 'shopping list' should enable the channel to complete its strategic plan for the digital age.

One key question, however, is not directly addressed.

What will be the nature of S4C's programme service after digital switchover?

The reviewers believe that S4C would be mistaken to believe a multi-channel Welsh language service is necessarily the right response to the challenges of the digital age. Fragmenting the viewing audience which wants a Welsh language service runs a high risk of broadcasting to audiences too small to justify the investment in a high quality service of programmes in Welsh, the core of the remit.

It is also unrealistic to believe S4C can expect any significant increase in its long-term grant from the DCMS to enable a sustainable second service to be maintained. Non-DCMS revenue is falling. Further cost savings and income from SDN may generate additional funding for programme services in the medium term, but not what is needed for expansion.

So the reviewers believe that a high quality service in the Welsh language will need

to be provided primarily through the medium of a single public service channel, with access to sufficient digital capacity to enable the service to be split on occasions when a major broadcasting event demands special consideration.

It would be in S4C's long-term interest to transmit that channel from the BBC's multiplex, enabling the first of their six objectives to be achieved. An additional advantage would be the consequent opportunity for S4C to realise the commercial value of its gifted capacity and the stake in SDN.

Such a channel might well include branded segments targeting specific sections of the audience, like children under 11. In such circumstances, it would be right for these services, like *Planed Plant*, to be identified separately on electronic programme guides. There seems no reason why S4C's second objective, an appropriate level of prominence for its services on electronic programme guides, should not be capable of resolution.

The third objective would also be more easily achievable if resources were focused on a single programme service. S4C's new Controller of Programmes has already made clear her intention to focus on excellence in the peak hours.

The fifth objective should not wait for the end of analogue broadcasting. S4C should identify additional resources soon to enable S4C Digital to introduce a 'red button' service. The new generation of Welsh speakers are growing up as interactive viewers. The strategy of appealing to the 'new Welsh' will fall at the first hurdle if interactivity is not a feature of the programme service.

The spectrum flexibility needed for a 'red button' service will also be needed on those occasions when the core service is split.

The final objective, the creation of effective working partnerships, has been a theme of this review. The most important partnership is with the BBC, and its nature should be pinned down during the course of 2004. S4C's submission to the BBC Charter Review process makes specific suggestions about how the long-standing partnership between the two broadcasters can be taken forward. This reviewer agrees with the BBC view that Charter Review is the right moment to revise the 1982 formula for the digital age.

The only one of the objectives that looks difficult to achieve is the ambition to expand the range and diversity of the Welsh language service. S4C's audience research has made it clear there are many different segments within the overall universe of Welsh-speaking viewers. Extra airtime on a second or third channel would enable range and diversity to be improved, but, unless new sources of funding could be identified, quality would be at risk. In addition, too many of the individual programmes in a multi-channel service would be broadcast to audiences too small to measure.

The approach outlined above, in which the core service could occasionally be split in two, would tie in well with S4C's 'events' strategy and offers a way forward.

There is a particular problem with finding the appropriate place in the schedule for the coverage of sessions of the National Assembly, currently broadcast on S4C-2. That might be addressed by a combination of approaches – like transmitting gavel-to-gavel coverage via the 'red button' service alongside specialised programmes reporting a digest of key debates and discussions. A combination of webcast and broadcast might be a sensible approach.

The problem of how to manage during the transition period between now and the end of analogue transmission remains. In the period between 2004 and analogue switch off, S4C will have to deliver at least two services – its analogue service and S4C Digital – and to carry the costs of so doing. There is a case for S4C to receive some form of digital dividend during this transition period – possibly a one-off grant to reflect the costs of implementing a revised strategic plan.

From S4C's point of view, the earlier analogue switch-off takes place, the better. The current commitment to transmit two public services puts a heavy burden on its resource base and, particularly, on its existing funding.

Audiences and airtime sales will drop further when the channel loses those viewers who watch S4C in order to view English language programmes from Channel 4. But the task of providing a high quality service for viewers who want programmes in the medium of Welsh will be in clear focus.

S4C has stated it wants to find a way forward soon but has to depend on decisions that will be made elsewhere. The sooner those decisions are made, the sooner S4C will be able to identify the right level of service for the 21st Century.

It is recommended that S4C should operate a single core service after digital switchover with a facility – on occasions – to split the service.

It is recommended that S4C Digital introduce a 'red button' interactive service as soon as possible.

12 A possible timetable

Key decisions, particularly about the transmission arrangements for S4C's services, will need to be made soon.

Here is a summary of a possible timetable for some key decisions that will arise during the next two years:

2004

- S4C's preferred programme service up to and after digital switchover;
- Following consultation with third parties, agreement on S4C's transmission arrangements after analogue switch off;
- Agreement between S4C and BBC Wales about the future of the S4C/BBC relationship;
- Agreements between S4C and independent producers about 2005 programme supply;
- Agreement on the positioning of S4C services on electronic programme guides;

2005

- Partnership agreements between S4C and key non-broadcast cultural and economic partners in Wales;
- The future of S4C's ongoing involvement in SDN and of its gifted capacity;
- Following outcome of OFCOM's PSB Review and BBC Charter Review, agreement with DCMS about levels of future funding to enable S4C to deliver its remit in transition period to analogue switch-off.

All of the above decisions have implications on S4C's overall strategy. But the nature of the future programme service must come first.

This review has indicated it believes that S4C's core services after digital switchover should be transmitted on a single channel, supported by interactivity, with an ability to split the service on occasions. If that is the choice, getting from here to there will not be easy.

To reach the point where a high quality Welsh language service on a single digital channel can be provided may well require re-structuring investment to supplement the continuing funding arrangements. Part of that investment would be available through S4C's own resources; part is likely to be a call on further government funding. The timing of such a one-off investment depends on the progress of the Digital Action Plan but is unlikely to be before 2006.

Appendix 1: Report of the Welsh language assessor

A Summary of consultation in Wales

- 1 S4C is valued by all, but invariably those interviewed admit to viewing significantly less than two years ago. Expatriates in London highly value the service.
2. **What does S4C do well?**
A wide range of responses – young children especially, events, drama, culture and rural.
3. **What does S4C do less well?**
Children 7+ (lack of red button), late teens/young adults and drama.
4. **Future Balance**
Must attract ‘new Welsh’ without antagonising traditional audience – a difficult job.
5. **Priority**
Almost unanimous view that improving the offer at peak is the top priority. Some perception that quality has slipped compared to other channels at peak. Mixed views on quality of digital off peak.
6. **Analogue Switch Off**
Half not in favour of replacing lost C4 material with other English language programmes, but prefer new Welsh material of better quality than that currently on digital. The remaining half suggest world film and documentary series dubbed or subtitled as a part of the offer and good quality English language programmes.
7. **Funding for Improvements**
Generally a combination of more DCMS grant and more value by BBC.
8. **Second Channel**
If money were available, half in favour, but most of these felt it was not realistic at present. Majority felt it was an unrealistic expectation in the foreseeable future. Others felt it was counter-productive to raise this issue when they should be focusing a clear message to DCMS and Westminster that Wales needs additional funding to ensure quality programmes during peak times. Feeling that there was no political backing for second channel funding.
9. **Added Value**
Welsh language, young children, the economy, national identity, culture etc.
10. **Consultation and Partnership Working**
The grass roots organisations were very appreciative of S4C partnership. Strategic partners were happy with S4C cooperation on projects etc. but were disappointed by level of engagement in the strategic agenda. The media industry was disappointed that there had been no consultation on the S4C review before going public.
11. **S4C Internal Review Document**
Grass roots organisations felt it was a useful document that informed them of future

challenges. Those with experience of preparing strategies and making bids for funding felt the document was too aspirational, lacked focus and did not prioritise. BECTU, NUJ and TAC submitted written observations on the review.

B Methodology

1. Interview Selection

1.1 The Welsh Language Assessor identified three main groups representing a wide range of interest, “*including organisations representative of those sectors where the role of S4C was of particular importance*” (paragraph (a) Annexe A of DCMS specification). Those interest groups were:

- The Media industry;
- The Welsh speaking community;
- All Wales organisations.

The original proposal incorporated interviews with 22 interviewees. In total, the Lead Reviewer and the Welsh Language Assessor undertook 33 interviews with representatives of 24 organisations.

1.2 Using existing contacts, Welsh information directories etc. and informal discussion, the Welsh Language Assessor then identified a number of target organisations in each interest group. Telephone calls were then made to confirm the appropriateness of the interviewee and date availability. Interviewees were also asked to read the S4C document ‘*A Welsh Language Television Service for the 21st Century?*’ before the interview.

A number of factors influenced the final selection:

- Multi-faceted – where appropriate, interviewees could represent more than one interest group (e.g. National Organisation/Parent, Local Organisation/Welsh Learner)
- Location – the interviews included appointments in North Wales, Mid and South Wales. Organisations in both rural and urban Wales were included.
- Triangulation – the list ensured representatives from both national organisations and grass roots organisations.

A list of those interviewed and their distribution is shown in Table 1.

2. Interview Design and Procedures

2.1 Following discussions with the Lead Reviewer, it was decided to use a format similar to the BBC’s Charter Review website questionnaire, incorporating additional points from the S4C Internal Review document.

Following several short pilot interviews, the format was modified to include an information section on current funding arrangements of S4C before exploring with the interviewee future funding options and a possible second channel. This adjustment was useful in ‘managing’ aspirations. Table 3 below shows the final ‘interview structure’.

2.2 Interviews were conducted on a person to person basis, either at the individual's place of work or at a convenient location. Only four interviews were conducted by telephone. In a number of cases (BBC/WDA/TAC) follow-up interviews were conducted by the Lead Reviewer in conjunction with the Welsh Language Assessor.

2.3 For the Welsh speaking community, a semi-structured interview format was adopted. Interviews with the media industry and with all-Wales organisations were less structured. Several media industry representatives (TAC, BECTW and NUJ) also made written submissions. In some cases (e.g. Screen, WDA and Welsh Assembly Government), the interview was focused on a few specific points (e.g. Wales Film Fund, Welsh Assembly Government Creative Industries Strategy/economic issues, Broadband roll out).

A possible future relationship between S4C and organisations representing the Welsh language community was examined in the interview with the Welsh Language Board (BYIG). Opinion formers working at the cultural/political interface were also interviewed.

2.4 The Lead Reviewer and the Welsh Language Assessor also had informal discussions with a number of delegates at the University of Wales Aberystwyth conference in March on *'Communications in Wales after the Communications Act'*.

2.5 A synopsis of the main points of the interviews was written up on a regular basis. The Lead Reviewer was given an interim response based on completing most of the interviews by 9 April. This was updated prior to a meeting with S4C on 20 April when almost all of the interviews had been completed.

Final analysis of the interview findings was completed during the week commencing 25 April.

2.6 The DCMS specification also asked for *"consideration to the extent that the reviewer judges appropriate, of the outcome and evidence generated by the S4C recent internal review process"*.

A selection of documentation was examined. These enabled the Welsh Language Assessor to make a qualitative assessment of the following:

- The Board's consideration of strategic and regulatory issues;
- Events leading up to the S4C internal review;
- Relationship between S4C and the independent programme makers;
- Economic impact of S4C.

Also examined were the S4C 'Corporate Plans' (actually Annual Plans) for 2002-04, 2003-05 and 2004-06 and the departmental plans. An analysis was made of targets to performance.

C Interview analysis

1 Comments on the S4C Internal Review Document

1.1 Welsh Language Community

Most of the 'grass roots' respondents felt that the review document was useful and informative. Some, with experience of preparing strategies and bidding for funds, felt that the document was too aspirational, lacked focus and did not prioritise.

1.2 The Media Industry

“Glad S4C now addressing the quality issue”

“Very aspirational document, at whom is it aimed? Better to have a number of costed scenarios with which to engage politicians and opinion formers”.

“S4C now brave enough to admit that mistakes have been made on bundling and that quality has been threatened by budgets being spread too thinly”.

2. What does S4C Do Well and Less Well?

This was an ‘open’ question. To some extent, the responses reflect the personal tastes of the interviewees but the following are noted:

- Do Well Very highly cited young children – others cited consistently events, drama, arts and rural.
- Less Well Most cited children 7+, late teens/young adults and drama.

2.1 Do Well : Children’s Programmes

2.1.1 Ranked highest of all in responses to genres where S4C does well. There was a high appreciation of programmes for under 6’s by respondents who were parents and by other whose friends had children.

“A Welsh language window in my house – when my children bring friends here, having a Welsh children’s programme on TV helps to ensure that they converse in Welsh with each other”.

2.1.2 A number emphasised the need for S4C children’s programmes to be listed separately on the EPG (supported by NUJ who felt Ofcom should use their influence).

2.1.3 Some evidence (small sample) that from 6+ children tend to view other channels rather than S4C. Parents attribute this to:

- Lack of interactive facilities on S4C;
- Offer for 6+ group is not as attractive as on other channels.

There is some anecdotal evidence that once the oldest child in a family reaches 6/7, she/he tends to dominate programme selection and this tends to be at the expense of S4C children’s programmes.

2.1.4 A number emphasised the need for more children’s programmes in the early morning (as was done over the Christmas holidays). Otherwise, children tune in to CBeebies and other channels before going to school. (According to one letter to S4C by a primary school teacher, this influences the language and conversation of children when they arrive in school in the morning).

2.1.5 Several who supported a second channel felt it should be used mainly for children’s programmes.

2.1.6 Other Comments

“Are S4C children’s programmes ‘plugged in’ to the Welsh Assembly Government Early Years Agenda?”

“Children’s programmes are vital in terms of implementing the Welsh Assembly Government Iaith Parwb (bilingual) strategy.”

“They should concentrate on improving quality during peak periods and extend to shoulder periods when finance permits”.

6. **Is One Channel Adequate?**

- 6.1 Excluding the media industry, half of the respondents felt that one channel was inadequate to meet the varying needs of the Welsh language audience. A number of these qualified their response by stating that it was unrealistic to expect additional funding for a second channel. Only around a quarter did not qualify their response in this way.
- 6.2 The majority felt that it was unrealistic to expect funding for a second channel in the foreseeable future. In addition to financial constraints, lack of viewers and lack of talent were seen as constraints.
- 6.3 A number of respondents referred to the success of BBC Radio Cymru in managing and satisfying its diverse audience on one channel. They were aware that this had alienated some of its traditional audience.
- 6.4 Several felt that children and young people should be given priority on a new channel.

6.5 **Media Industry**

A qualified welcome to the principles of second channel. *“Need to ensure significant new funding to achieve this and must address quality of existing programmes first”.* Several suggested that there was little political support for additional funding for a new channel. (Not a similar situation to the win/win situation at the time the channel was established).

“S4C should not be experimenting with a new channel when the core channel is in trouble”.

7. **Given its limited resources, should S4C seek to improve its peak time service or seek to fund an all-day Welsh language service?**

The majority of the Welsh language community respondents stated that investment should be concentrated on improving peak viewing programmes:

“Expansion into digital has compromised quality and deprived peak time viewers of enhanced quality”

The younger respondents felt that the emphasis should be on the off-peak period:

“S4C needs to give a service to all categories and cannot do this in the narrow window of peak viewing”.

A number of respondents expressed the view that the S4C digital offer off-peak was no worse than that available on other channels.

8. **Where in Wales is S4C already adding value?**

Again, an open question. Most cited Welsh language/economy, children, national identity/culture/Welsh learners, cohesion between regions of Wales. Expatriates were very appreciative of the link with Wales.

9. **Consultation and Partnership Working**

9.1 Grass Roots Organisations

Had little or no experience of consulting with S4C. S4C recognised as an excellent partner on projects – several examples given including the Christmas Grotto which helped grass roots organisations such as TWF and Mentrau Iaith (local Welsh Language initiatives) and also raised awareness and appreciation of S4C. Also helped local economies.

9.2 Welsh Language Organisations

Excellent at working on specific projects e.g. Urdd and YFC Eisteddfod.

In terms of discussions on strategic issues, less positive:

- Mudiad Ysgolion Meithrin (Welsh medium nursery provision) : not involved in strategic discussions with S4C for a number of years.
- Merched y Wawr : not as good as BBC and previously HTV who keep regular contact;
- Bwrdd yr Iaith Gymraeg : there are examples of co-working but these are rare exceptions.

All expressed a wish for discussions with S4C on future challenges, research programmes etc. S4C and the Welsh Language organisations share many challenges. All are happy for S4C to use their extensive networks for market research etc.

There is a perception that because of its separate funding, S4C is ‘detached’ from other Welsh organisations at National level.

9.3 Media Industry

A perception that S4C has not been good at consultation with the industry in the past. “S4C does not respond well to constructive criticisms”. Several organisations felt that there had been a more positive approach from S4C in the past 2 years.

10. Relationship with BBC

No specific question was asked on the relationship between S4C and BBC. When raised by interviewees (see Chapter 3, para 3.1 of S4C Internal Review), interviewer responded that organisational issues were best considered as a part of the Ofcom review of BBC. Nevertheless, several interviewees (and one written submission) felt that the issues needed to be explored. Their comments are given below:

“Disappointed that there has been so little cooperation between S4C and BBC. This is essential for the future. Needs to go far deeper than the occasional co-production. Without working with BBC in Wales, how is S4C going to ensure it has a credible presence in a multi-platform environment?”

“Wales should be brave enough to address the BBC/S4C relationship. S4C was a 20th Century response in Wales – i.e. independent selected board with dual function, number of similar organisations in Wales. This structure is now badly dated and does not assist S4C in the digital multi channel environment. Do we need S4C Board? Where is the added value of a separate organisation?”

“For the future, S4C needs to develop strategic links with BBC, sharing the benefits of new media technology. Ofcom guidelines for regional programmes – can S4C use this to their benefit and assist BBC and ITV at the same time?”

“Should get some agreement with BBC Radio Cymru on a reciprocal trail agreement. The viewing and listening profiles of Welsh speakers are complementary rather than competitive e.g. mature/traditional listeners to radio in daytime to about 6.30 pm and then tune in to S4C. Also could work with BBC on commissioning programmes jointly e.g. S4C/BBC2 Wales.”

“Relationship between S4C and BBC has been ad-hoc. Need to improve the relationship between them. Some promising developments recently when new S4C Head of Programmes met with BBC producers of S4C programmes (first time for many years). BBC producers (for S4C programmes) get little or no feedback on viewing performance (may be a problem in BBC). Producing programmes for S4C is not seen as a high priority within BBC – network programmes get the priority.

“Need closer working with BBC. How can S4C benefit from the excellent BBC website and its investment in new media? Need better links between S4C and BBC websites. Can BBC and S4C get better cooperation on trails and marketing?”

“The various reviews of public service broadcasting promised by Ofcom may well offer S4C an opportunity to define a new regional set up. I have long been of the view that there should be Welsh broadcasting authority – for English and Welsh language broadcasting. It is becoming more difficult to justify the split between S4C and the BBC since market forces and new regulatory organisations are driving both together. Both the BBC and S4C are currently outside the terms of reference of Ofcom. I don’t see this remaining. A Welsh broadcasting authority would draw its funding from a central pool – a public service broadcasting fund for example, with S4C acquiring responsibility for all Welsh language broadcasting – on radio and television. The organisational split between BBC Radio Cymru and S4C is not sustainable given the size of the Welsh language audience. BBC Wales would be responsible for all public service English language broadcasting in Wales. This new governance structure would release each language service to strengthen its multi or bi-media ambitions”.

11. Challenges and Opportunities

In addition to the challenges of digital roll-out, respondents identified a number of other challenges and opportunities.

11.1 Demographic (Challenge)

“Other challenges to S4C are demographic and geographic e.g. forecast reduction in young people over next decade, shift of young population from rural to urban areas, especially to Cardiff.”

There were several similar comments.

“There is a need for S4C to understand and anticipate the effect of language shift – the ‘new’ Welsh in the South East, increase in mixed language households, and migration of young people to large urban conurbations.

“There is a new professional class emerging who will only buy into Welsh events if they are high quality and suit their tastes.”

11.2 Working With Others (Opportunity)

“S4C must continue to support the Welsh Assembly Government agendas on Iaith Parwb and Early Years Curriculum”.

“ELWa, S4C, BBC and BYIG must work closely in the delivery of the Assembly’s Iaith Pawb agenda”.

“S4C must help to promote co-productions which have international markets”.

“S4C needs to target specific groups – under 6’s offer must be as attractive as English channels (including interactive facilities); far better offering for 7+ age group; young people and young parents; mixed language families”.

11.3 Cultural Infrastructure

Several referred to the new Wales Millennium Centre and the new National Theatre as opportunities for S4C for collaboration and co-productions.

11.4 New Technology/Regulation

“The main challenge is to get S4C and the ‘dependent’/‘independent’ sector to diversify and look outside Wales for business. The new legislation regarding IPR should be a spur to the more ambitious independents.”

“Once Broadband is rolled out across Wales, in the long term S4C should see itself as a digital content provider rather than a delivery mechanism”.

“Have S4C assessed the long-term implications for S4C of independent producers retaining IPR. It should radically change S4C’s structure”.

“If the public service funding arrangement changes – as some are indicating with regards to the BBC Charter review, S4C may well find itself competing for scarce resources against other, more numerous minorities in a multi-cultural Britain. It makes for a challenging future”.

12. The Economy and S4C

A detailed assessment of the economic impact of S4C was undertaken by Welsh Economic Research Unit, Cardiff University, in 2001 “Economy and Culture: S4C in Wales – Present and Potential Economic Improvements”.

12.1 Interview Responses

‘Economic benefits’ of S4C were cited by a high percentage of the respondents. There were some positive and other more guarded comments from the media industry and opinion formers.

“Has resulted in the development of a large number of media-related and especially film related companies in Wales. Some of these – Tinnopolis and Barcud Derwen are now regarded as companies with world class facilities and they have (mainly through acquisition) a presence in several countries. Good supply chains within Wales maximises the benefits to the Welsh economy.”

“Activities of S4C are seen as having considerable economic benefit within Wales. High GDP companies and supply chains have developed over past 20 years in North Wales and West Wales. S4C commissioning policy is the cause of this. Unfortunately, with a few major exceptions (Boomerang, Barcud Derwen and Tinnopolis) few of these companies have actively participated in the UK and European markets, but have been suppliers to a monopsony client – S4C.”

“Few of the independents have developed international or even UK markets. Most are too reliant on S4C”.

“There have been economic benefits although an opportunity has been lost because of the monopoly relationship between S4C and the independents. Little internationalisation of the companies and therefore not true and resilient cluster”.

These comments (in 2004) are very similar to the points made in the 2001 report by the Welsh Economic Research Unit and indeed to the David Graham Associates report of 1998 commissioned by TAC.

Table 1: List and Distribution of Interviewees

• = Main sector, ✓ Other sectors

	Media Industry	Welsh Language Community	Cultural	Welsh Learners	Youth	Young Children	Opinion Forums / Economic	All Wales
1. Arts Council for Wales (Drama)				•	✓			✓
2. Arts Council for Wales (General)			•			✓		✓
3. BBC	•	✓	✓	✓	✓	✓		✓
4. BECTW	•							✓
5. Bwrdd yr Iaith (Welsh Language Board)		•		✓	✓	✓		✓
6. ELWa				✓	✓			•
7. Equity	•		✓					✓
8. Menter Caerdydd (Language Initiative)		•	✓	✓	✓	✓		
9. Menter Iaith, Denbighshire (as 8)	•	✓	✓	✓	✓			
10. Mercator/Thomson Foundation	•	✓	✓					
11. Merched y Wawr	•	✓	✓					✓
12. Housing Association				•		✓		✓
13. MYM (Welsh medium Nursery provision)	•					✓		✓
14. NUJ	•							
15. Popeth Cymraeg (Educational charity, Welsh learners)	✓		•					
16. Sgrin	•							✓
17. TAC (Association of Welsh Independent Producers)	•							✓
18. Twf (Grass Roots Language Project)		✓		✓		✓		
19. WDA (Economics)							✓	✓
20. Welsh League of Youth		•	✓	✓	✓	✓		✓
21. Young Farmers Clubs of Wales		✓		✓	✓			
22. Opinion Former 1	✓	✓	✓				✓	•

Table 1: List and Distribution of Interviewees (continued)

• = Main sector, ✓ Other sectors

	<i>Media Industry</i>	<i>Welsh Language Community</i>	<i>Cultural</i>	<i>Welsh Learners</i>	<i>Youth</i>	<i>Young Children</i>	<i>Opinion Forums / Economic</i>	<i>All Wales</i>
23. Independent Consultant (Economic Development & Media Relations)		✓					✓	✓
24. Opinion Former 2	✓	✓	•				✓	✓
25. Welsh Development Agency (Media Technology)							✓	✓
26. TAC Board	•	✓	✓			✓		✓
27. Ofcom Wales	•						✓	✓
28. Welsh Assembly Government		•	•	✓			✓	✓
29. Aberystwyth Conference	•	✓	✓				✓	✓
30. BBC	•		✓					✓
31. HTV / ITV	•							✓
32. Boomerang	•	✓	✓		✓			

Table 2: Written Representations to DCMS & S4C**Letters to DCMS**

1. Mrs R East, Port Talbot
2. Alwyn Jones, London-based
3. Hugh L Evans, Home Counties, and also telephone conversations with Lead Reviewer and Welsh Language Assessor
4. G A Evans, Home Counties
5. Eluned Miller, London
6. Rhys Owen, London
7. An Independent Producer

Letter to S4C

Sian E. Roberts, Porthmadog

Table 3: Final Interview Structure

1. Outline of DCMS Review

Background, role of Lead Reviewer, Roger Laughton, and role of Meurig Royles, Welsh Language Assessor, undertaking most of the consultations in Wales.

2. Introduction

2.1 Confirm choice of language.

2.2 Name, status, organisation.

2.3 Any other staff in organisation who have contact with S4C? Details?

2.4 Where do they usually go to find details of S4C programme schedules?

2.5 Personal viewing patterns.

3. S4C Internal Review

- Confirm they have read Review document.
- Any parts which they agree strongly or disagree with?
- Problems of digital roll out?
- What response should S4C have to the situation?

3.1 What do you value most about S4C?

3.2 What does S4C do well and less well?

3.3 Where should the future balance of S4C be on ‘The Traditional Welsh Audience’, reaching ‘The New Welsh Audience’ (younger Welsh product of Welsh Medium Education in South East and North East).

4. Analogue Switch Off

Effect of losing Channel 4 programmes and service:

Option 1: Status quo – quality programmes on prime time plus current digital offer off peak

Option 2: Buy in English media or foreign programmes to attract viewers to other programmes

Option 3: Try to replace with new Welsh materials

Other observations?

5. Funding

S4C currently funded by:

- DCMS grant of £80 million
- Other income of £13.5 million and filling
- Total funding £100.7 million
- + 10+ hours a week free from BBC

How should we fund service improvements?

- 5.1 More DCMS grant – availability?
- 5.2 More value for S4C viewers from BBC licence fee?
- 5.3 Subscriptions?
- 6. **Can one channel provide the needs of all Welsh speakers?**
- 7. **Added Value**
- 8. **Where in Wales do you feel S4C is adding value?**
- 9. **Consultation and Partnership Working**
- 9.1 How good is S4C at consultation?
- 9.2 How good is S4C at partnership working?
- 9.3 Any involvement with S4C on strategic issues?
- 10. **Any other observations?**

Appendix 2: Review of cost centres

Engineering, Technology and Channel Management (2004 Budget: £10.1 million. 2004 Staff : 70.5 FTEs)

S4C operates its own transmission centre in Cardiff. Incoming feeds include the BBC, the Assembly and Channel 4; outgoing feeds include analogue terrestrial, DSat, DTT and NTL cable. In addition there is the need to deal with the time shifting of Channel 4's output as well as promotions and the sub-titling requirements.

Staff costs rose as a result of the introduction of the digital services, but the decision to use more in-house staff for a continuing service was cost-effective. Salaries are lower than London and current ITV regional levels.

The major costs are the contracts for transmitting both analogue and digital services – approximately £6.7 million – a cost that should fall dramatically when analogue switch off takes place.

There may be a case for out-sourcing transmission services in years to come. Third party transmission and facilities services can provide a major cost advantage for a single channel provider. As long as the analogue service continues, this is probably not the right approach for S4C. But management should continue to review this option.

The on-air design and marketing is attractive and has the tone and style of a significant channel. There is a creative Graphics unit serving press and print as well as the on-screen services.

As yet, there are no interactive services, a gap that needs to be filled in order to compete with other digital broadcasters. There will mean a significant one-off investment and, depending on the ambition of the services offered, additional annual costs. But the annual cost savings after analogue switch off should more than compensate for this.

Marketing, Press Office and Corporate Affairs (2004 Budget : £4.27 million. 2004 Staff : 36.5 FTEs)

The annual budgets in these areas could fairly be described as too small for a national station and too large for a regional station.

Yet marketing is becoming more essential as S4C struggles to keep contact with its target audiences. As audiences decline and fragment, off-air marketing support for programmes becomes more essential.

In particular, the difficulty of getting adequate coverage of programme listings in newspapers and magazines means that other communications, like the magazine, *SGRIN* (circulation:37000), need to be employed more regularly.

S4C operates a busy, if unexciting, website in two languages which goes some way towards compensating for the lack of visible programme listings. But the contrast between S4C's website and BBC Wales' interactive services is the contrast between a Spitfire and Concorde, reflecting the BBC's massive annual spend on developing its interactivity across its networks.

The planned move towards a more event-led schedule should be accompanied by a review of existing marketing spend and effectiveness. Although it is unlikely significant cost savings can be achieved, there is scope for reviewing again the effectiveness of some non-programme expenditure. For example, corporate affairs spend is significantly higher than any commercial broadcaster would judge necessary, a characteristic of all public service broadcasters.

Over time, like other channels, S4C is likely to need to spend more to reach less. This will mean defining the channel's key communications objectives and linking them clearly to the on-screen strategies. Maintaining a reputation for effective coverage of Welsh club rugby could be one such objective.

Subtitling (2004 Budget : £1.0 million. 2004 Staff :1)

Subtitles provide a double function for S4C.

They enable viewers who are deaf or hard of hearing to access programmes they would not otherwise be able to enjoy. The target for this aspect of the service in 2004 is 80%, slightly ahead of OFCOM's regulatory requirement (but in line with previous ITC targets). The service can be accessed via page 888 of Teletext. A number of programmes are broadcast with open subtitles, making S4C's programmes more accessible to non-Welsh speakers – notably the omnibus edition of *Pobol y Cwm*, where two-thirds of the audience for the Sunday evening repeat are often non-Welsh speakers.

In addition, on page 889 of Teletext, simplified Welsh subtitles, intended for those learning the language, are broadcast for ten hours a week. This is not a regulatory requirement, but is seen by S4C as a service for Welsh speakers who are hard of hearing. It has the additional advantage of supporting those learning the language.

Subtitling budgets are delegated to independent producers, with a rate card which determines what S4C pays, based on the channel's knowledge of this market. The one in-house staff post ensures planning, compliance and co-ordination of the subtitling work between S4C, programme suppliers and subtitling companies. Quality control and preparation for transmission is carried out by an independent team on a contract basis.

S4C have recently reviewed the operation of the subtitling service with a particular focus on accessibility.

Appendix 3: The 2004 S4C Internal Review : Summary

This is S4C's own summary of their internal review document 'A Welsh Language Television Service for the 21st Century'.

- i) S4C's decision to call for a review of its operations reflects the enormous shifts taking place within broadcasting and to the population it was established to serve. The broadcasting environment which S4C occupies today is very different to that which existed when it was launched as the first ever Welsh language television service 21 years ago. S4C continues to be one of just four television services available on analogue transmitters in most of Wales. It continues to broadcast a service which comprises mainly Welsh language programmes during peak and the best of Channel 4's output at other times. But in more than half of all Welsh households S4C is now one of the more than two hundred channels available through digital television. S4C's plans for the future must ensure that the channel can compete successfully in this far more competitive broadcasting landscape. The key elements of S4C's vision for a modernised service fit for the 21st Century are set out in this document. Along with S4C's own assessment of its activities and of the challenges it faces, these are intended to provide a start point for the external review process that has been announced by the Secretary of State.
- ii) Analogue switch-off represents a challenge but also an important opportunity for S4C. If S4C is to seize that opportunity, there will need to be changes in the nature of the service that it delivers. It will need to keep up with the growing expectations of its viewers. It will need to find new ways to engage with those viewers. It will, for example, need to strengthen its programme line-up so that there are more high points to the service; it will need to maintain range and diversity if it is to fulfil its remit of providing a comprehensive public service to Welsh speakers; S4C will need to develop an interactive capacity and there will need to be a new deal for children's programmes in line with the growing expectations of children and their parents. Welsh language broadcasting will otherwise be seen as a poor relation. Broadcasting over the internet offers exciting opportunities to bring Welsh language content to the attention of a worldwide audience. As television based content becomes increasingly available on a range of new digital platforms, S4C bears an important responsibility to make sure that the Welsh language plays a prominent and vibrant rôle on those platforms.
- iii) The changes taking place within the Welsh speaking population only serve to underline the continuing importance of the service S4C provides. There has been encouraging growth in the number of Welsh speakers. There are some encouraging signs that at least part of this growth should be sustainable. But the Welsh language tends to play a different role in the lives of the new generation of Welsh speaker than it does for the traditional Welsh communities that still constitute a significant part of S4C's audience. S4C must continue to be an important source of information and entertainment for that segment of the population for whom the language is an integral part of their every day lives. But S4C can also play an important rôle in reinforcing the position of the language in the lives of the new generation of Welsh speakers.
- iv) As switch-off approaches, S4C will need to respond to this challenge without the support of the sustaining service that Channel 4's programmes have provided on analogue. The very real concern of the S4C Authority is that its ability to deliver a wide-ranging television service of

consistently high quality is already being eroded by the limitations of an inflation-linked funding formula. There are also substantial technical costs associated with switch-off. The review concludes that S4C will not be able to seize the opportunity to deliver a comprehensive high quality service on digital platforms, offering a range of wider social benefits, on the basis of a funding formula designed to support a service that broadcasts for only five hours a day on analogue.

- v) The review presents a range of evidence that suggests that S4C is making efficient use of the resources it currently has available. The amount that S4C spends on every hour of programming is significantly below that which is spent by its competitors. Expenditure on overheads compares favourably with industry benchmarks. The review also concludes that the £14 million in commercial turnover generated by S4C International is close to, or at, the maximum level that can be generated without incurring an unacceptable element of commercial risk.
- vi) In pursuit of its vision of a modernised service fit for the 21st Century, the review suggests that S4C's uniquely important relationship with the BBC should be reviewed, as part of the BBC's Charter Review that is now underway. It also highlights the importance of securing a readily accessible presence on all digital platforms and of meeting the costs of the roll-out of the digital terrestrial transmitter network whilst protecting S4C's programme budget.
- vii) The final part of the Authority's review consists of an audit of the wider social benefits that are derived as a consequence of the programme service. These wider benefits are a direct consequence of S4C's programming decisions, which aim to ensure that the overall objective should be to deliver S4C as a public service. S4C's ability to deliver these wider benefits is intimately linked to its ability to deliver a service that is attractive and able to compete successfully in an increasingly competitive broadcasting environment. The earlier parts of the review set out the sort of changes the Authority believes will be necessary if S4C is to continue to operate successfully. S4C's ability to deliver the wider range of benefits associated with its vision for a modernised service will be dependent on S4C being able to deliver these changes by the time switch-off arrives.

Appendix 4: Documents supplied by S4C

1. Annual Reports and Statements of Account : 1998-2003
2. S4C : Funding for the Digital Age: 2001
3. Report of CEO to Board on Strategic Review: 2002
4. Samples of Board Minutes (2002-2004)
5. Chair's Strategic Paper to Board : 2002
6. Agendas for Audit Committees (samples)
7. Audit Plan for 2003
8. Extract from CEO Report to S4C Authority on relationships with independent producers : 2003
9. Notes of staff and Authority Members' Awaydays : 2003
10. S4C Position Paper on Analogue Conversion : 2003
11. S4C Corporate Plans : 2002-2004, 2003-2005, 2004-2006
12. Departmental plans : 2004-2006
13. S4C Internal Review : 2004
14. S4C Code of Practice for Commissioning Programmes : 2004
15. S4C Response to OFCOM consultation on regulation of Electronic Programme Guides : 2004
16. S4C Response to Review of BBC's Royal Charter : 2004
17. S4C International Catalogue : 2004
18. S4C Audience Research data : various

Other Documents

1. Graham Report on Independent Production in Wales: David Graham Associates : 1998.
2. Wales on Screen : editor, Steve Blandford : 2000.
3. Economy and Culture : Present and Potential Impacts of S4C : Welsh Economy Research Unit : 2001.
4. Communications Act : 2003
5. Iaith Pawb : A National Action Plan for a Bilingual Wales : Wales Assembly Government : 2003.
6. Speech by Secretary of State to RTS Cambridge Convention : 2003.
7. BBC Briefing Document re. BBC/S4C relationship : 2003.
8. Digital Television Action Plan : 2004.
9. Serving Citizen Consumers in the Digital Age : OFCOM : 2004
10. Review of Public Service Broadcasting, Part One : OFCOM : 2004

