



Department for
Digital, Culture
Media & Sport

Government response to the S4C independent review: 'Building an S4C for the future'

29 March 2018



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

29 March 2018



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Foreword from Secretary of State for Digital, Culture, Media and Sport

S4C is the world's only Welsh language broadcaster. In fulfilling this role, and fulfilling it well, S4C has a unique cultural and social value, as well as making a vital economic impact. This government is committed to the future of Welsh language broadcasting and we are proud to support the valuable service S4C provides to Welsh speaking audiences in Wales, the UK and abroad. S4C is a core part of our ecosystem and I want to see it thrive and embrace the opportunities of the new media landscape.

This is a challenging yet exciting time for broadcasting. Like our other public service broadcasters, S4C needs to adapt to rapid technological and market change. It needs a clearly defined role in the face of strong competition, delivering for audiences with original content and imaginative distribution. And crucially S4C needs to make sure it provides value for money for the public that funds it.

My predecessor appointed Eurnyn Ogwen Williams as chair of the independent review of S4C. Eurnyn's in-depth knowledge and understanding of the broadcasting sector, the Welsh language, and Welsh culture and society made him the ideal candidate to lead this important review, and I am extremely grateful to him for his hard work and dedication in producing this comprehensive review.

This review delivers this government's manifesto commitment. The review is a thorough and insightful examination of three key issues as set out in the review terms of reference: S4C's public service remit and its ability to deliver high quality content; S4C's funding methods; and its governance structure.

The review challenges S4C to be better and I see the review's recommendations as central to achieving this aim. S4C provides hugely valuable and high quality content and services - from children's programmes and documentaries, to being a trusted source of news in Wales. However I agree with the Chair's overall conclusion that S4C needs to do more to adapt to the changing media landscape and remain relevant as an independent modern public service broadcaster in the UK

S4C receives a substantial amount of public money - over £81 million in 2016/17 - and I agree with the review that it should be doing more within its current stable funding envelope to deliver for Welsh speaking audiences. It should not be afraid to take risks where commercial broadcasters are unwilling or unable to do so. This will require clear strategic leadership and vision, working more smartly to exploit the opportunities of digital innovation, and being a better partner in supporting the sector rather than competing with it. In particular I note the Chair's conclusion that S4C has invested a lot of its energy since 2010 to protect its standing as an institution at the expense of collaboration. Clearly this is an outlook that must change.

The Chair is entirely correct that the next few years will be a key test for S4C and I recognise that root and branch changes in S4C's outlook and strategic approach are required to deliver these reforms. I also share the Chair's view that S4C, as well as working harder to maximise

commercial revenue, needs funding stability and certainty to thrive during what will be a period of rapid change.

With that in mind, the government is committing to maintaining S4C's Exchequer funding at its current level of £6.762 million for 2018/19 and 2019/20. This will give S4C the funding certainty it needs for the next 2 years to deliver these much-needed reforms. I expect S4C to take immediate action to re-prioritise existing resources and allocate new funding to take forward the reforms recommended in this review, particularly on improving its digital and commercial arms. Alongside this, I share the Chair's view that there may be opportunities for S4C to drive efficiency savings in its business and I expect S4C to demonstrate value for money. With that in mind I fully support the Chair's recommendations that S4C's current governance and accountability arrangements should be strengthened.

This is an exciting opportunity for S4C to embrace innovation and collaboration. I look forward to seeing S4C flourish as the cornerstone of the Welsh broadcasting sector and creative industries.



Rt Hon Matt Hancock MP

Secretary of State for Digital, Culture, Media and Sport

Government response to the S4C independent review

Summary

The independent review presents a strong and sensible package of reforms which have the potential to deliver real change to make S4C a better organisation that more effectively serves Welsh speaking audiences.

The government accepts all of the recommendations for government made by the S4C independent review. Alongside this we also expect S4C to take forward the relevant recommendations and suggestions in the review. The government expects S4C to respond quickly and has asked S4C to provide a detailed implementation plan by July 2018 on how it will deliver the necessary reforms.

Given the wide-ranging nature of these recommended reforms, S4C may wish to consider appointing an external specialist advisor or establishing a short-term external advisory panel to assist them through this transitional phase. This will be particularly valuable to support the organisation in areas where the requisite skills may not already be available - for example, on driving commercial success and digital innovation. However any appointments of this nature should carefully consider the value for money case.

While some of these recommendations will likely require legislative change when parliamentary time allows, the government fully expects S4C to work flexibly in the interim to deliver these reforms as much as possible within the constraints of the current statutory framework.

Recommendation 1

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

The government accepts this recommendation. S4C was established in 1982 when the broadcasting sector looked very different. Its current public service remit reflects a bygone era and we agree that it should be updated to include digital and online services and to remove the current geographical restrictions. We agree with the Chair's assessment that S4C could and should be doing more to innovate to broaden its reach and appeal, to deliver its duties effectively as a modern public service broadcaster.

Updating the remit will allow S4C to make its content available on a wider range of platforms - in Wales, across the UK and abroad. However S4C should not use an outdated remit as an excuse not to continue its focus on delivering better digital and online services now. The government is clear that the current public service remit has not prevented S4C from moving into the online and digital space already - it already has a growing online and digital presence, particularly through social media and Clic (S4C's on-demand service), and its content is already

available outside Wales. We also agree with the Chair's assessment that updating the remit does not require an increase in S4C funding, but rather a change in S4C's strategic outlook and approach.

Delivering this recommendation will likely require legislative change which government will take forward when parliamentary time allows. However we are clear that S4C should begin work now to prioritise digital innovation as a strategic focus.

Recommendation 2

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

The government welcomes this recommendation. We agree with the Chair's assessment and note his findings that S4C's current digital marketing and distribution strategy is inconsistent and lacks direction. S4C is not currently doing enough to adapt to a digital marketplace. We agree that digital should be fully embedded across the business and S4C should be doing more as a catalyst for digital production in Wales to add value to the sector. As the Chair notes, developing capacity to produce in-house digital content will help S4C drive efficiencies, improve its digital footprint and help stimulate a cluster for Welsh language producers and developers all over Wales.

The government also agrees the digital hub should be developed with careful consideration of the impact on the vibrant Welsh independent production sector which already produces high quality award-winning content. We look forward to receiving an update from S4C on how it will deliver this recommendation.

Recommendation 3

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

The government welcomes this recommendation. We agree that S4C plays a vital role in reflecting Welsh culture and society and promoting the Welsh language. We recognise this is a matter for S4C but it is important that any partnership with the Welsh Government focuses on areas where there is a clear devolution link such as education. The government notes the Chair's suggestion that S4C should establish this language partnership by the end of 2018, and we look forward to receiving an update from S4C on progress in due course.

In terms of broader partnerships, the government supports the Chair's findings that S4C must invest more in partnership by strengthening its current relationships and building new ones. We agree that S4C needs to alter its cultural outlook to recognise that partnership is not inherently a threat to independence. S4C should have a more outward focus and make the most of the opportunities that collaboration can bring. S4C has a wealth of knowledge and expertise which it

should be using to support others in the sector. In short, S4C must be a better partner which aims to support the sector rather than compete with it.

In particular, the government was concerned about the Chair's findings that S4C's production commissioning processes lack transparency and appear to favour larger independent production companies. S4C should be doing more to support the entire sector where possible and we expect S4C to consider these findings and make changes where necessary. Alongside this, we also welcome the Chair's suggestion that S4C and TAC (as the representative body for the Welsh TV production sector) must take strong proactive steps to re-earn the trust of smaller producers that feel marginalised by S4C's reliance on the bigger players, and reestablish TAC's role as an effective broker between S4C and the Welsh production community. We also agree that S4C should explore ways it can support the wider Welsh creative industries.

S4C has a strong creative and strategic partnership with the BBC which continues to deliver high quality output in Welsh. This is a relationship that is good for both broadcasters who can work together to drive efficiencies, and collaborate to maximise impact. The government safeguards this relationship through the BBC Charter, which sets out a clear commitment to the Welsh language and states the BBC and S4C must have the 'shared aim of working together to observe and safeguard the independence of both'.¹

However we also note the Chair's findings on concerns about a lack of plurality in Welsh language news content because it is all produced by the BBC (and broadcast on BBC Cymru, BBC Radio Cymru or S4C), and the findings about audience perceptions that S4C news is not distinctive enough. The government respects the editorial independence of both broadcasters, and hopes the BBC and S4C carefully consider the issues raised in the review.

While its partnership with the BBC is crucial, S4C must look to collaborate with other organisations with shared interests. For example, outside Wales we think there is considerable scope for S4C to improve its relationships with other minority language broadcasters (such as MG Alba, the Gaelic language broadcaster) to share knowledge and best practice, and explore opportunities for collaborative working.

The government looks forward to an update from S4C on how it will substantively improve its partnership and collaborative working with the Welsh creative industries and beyond.

Recommendation 4

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

The government accepts this recommendation. We agree with the Chair's conclusion that discussions about sufficient levels of funding for S4C are an unnecessary distraction from the

¹ BBC Framework Agreement (2017)

real challenges that S4C faces, and the need to ensure S4C funding is on a stable and transparent footing.

S4C is already primarily funded by the licence fee which provides significant funding stability. In 2016/17, 92% of S4C's public funding came from the licence fee (£74.5 million) and 8% from the additional DCMS grant-in-aid (£6.762 million). The level of licence fee funding for S4C is guaranteed until 2021/22.

The government agrees that providing S4C's public funding entirely through the licence fee from 2022/23 (and removing the additional DCMS grant-in-aid) would provide S4C with even greater funding stability and certainty, which gives it the freedom to make the creative and commercial choices it needs to thrive in an increasingly competitive broadcasting market. This reform would provide a single fixed, stable and transparent funding stream which would give S4C the same funding certainty as the BBC.

The Chair is clear that he does not agree with the argument from S4C and some of its supporters that the existence of government funding (on top of licence fee funding) somehow further protects S4C independence. The government strongly supports this assessment and is clear this reform will not in any way undermine S4C's independence. The BBC Framework Agreement sets out very clear obligations for the BBC and S4C to work together to observe and safeguard each other's independence. Alongside this, the recently published BBC-S4C partnership agreement sets out the strategic, creative and operational partnership between the two broadcasters to deliver public value for Welsh speaking audiences for the next decade. We believe these current arrangements are sufficient to ensure the independence of both broadcasters.

The Secretary of State for DCMS has a statutory duty to ensure sufficient funding for S4C. We agree with the Chair's assessment that this reform does not undermine this duty because government still retains a mechanism to execute its determination of sufficient funding via our funding settlement negotiations with the BBC.

The current licence fee settlement period is 2017/18 to 2021/22, and the government has agreed the level of the licence fee for this period with the BBC. The government will not reopen the current licence fee funding settlement and the BBC and S4C's licence fee funding for this period will not change. The government will review S4C's licence fee funding for the next licence fee settlement period beginning in 2022/23 (and ending in 2027/28). This will take place as part of the government's broader licence fee funding settlement negotiations with the BBC which will likely begin in 2021. The government has consulted the BBC and S4C about this process.

The government remains clear that as a substantial recipient of public money, S4C must deliver efficiencies and demonstrate greater value for money. The S4C Authority is ultimately accountable for how the organisation spends public money and we expect the Authority to be able to demonstrate progress in these areas.

Recommendation 5

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

The government accepts this recommendation. We note the Chair's findings that S4C is not making full use of commercial opportunities and using commercial revenue to invest in the core business.

The government recognises the Chair's concerns that S4C is currently not doing enough to supplement its substantial public funding with income generated through commercial enterprise. While there is a formal process in place for government to approve certain commercial activities, as is necessary for public sector bodies, this is not an unusually onerous process. S4C has successfully gained government approval for commercial activities in the past, but has chosen not to pursue this avenue on a regular basis in recent years.

However we will consider how current approval requirements might be amended to give S4C greater freedom to invest and generate commercial revenue. We will work with S4C to consider whether it is feasible to devise a revised approval mechanism that is practical and proportionate, while retaining an appropriate level of government oversight and accountability. This will likely require legislative change to be taken forward when parliamentary time allows.

More broadly, we agree with the Chair's conclusion that S4C should be doing more to use its scale and resources to explore commercial avenues and maximise commercial revenue. This would strengthen S4C's financial stability and bring them in line with other public service broadcasters like the BBC.

The government welcomes the Chair's suggestion that S4C explores ways to bring commercial enterprise into the heart of its public services with commercial strategy driven centrally by the S4C Authority. We expect the S4C Authority to take control and ensure S4C Commercial works smarter and harder and uses its existing commercial fund effectively and to maximum benefit. The government also supports the Chair's suggestions for S4C to leverage commercial returns through international distribution, and co-producing and co-financing projects, particularly in digital content. Of course all S4C commercial activity should carefully consider the impact on the market and the consistency of such activities with their functions.

The government expects S4C to take immediate action to address the Chair's findings and recommendations in this area. Generating meaningful commercial revenue to supplement public funding is a core function of a modern public service broadcaster, and we expect S4C to deliver.

Recommendation 6

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

The government accepts this recommendation. We agree with the Chair's conclusion that the current two-tier structure of a separate S4C Authority and executive Strategic Management Board is not the right structure to drive progress and change. We were particularly concerned by the Chair's findings that there is inconsistency and confusion on the respective duties of the S4C Authority and executive management board.

As the Chair argues, S4C needs to be bold and take risks to reach new audiences, new platforms and new ideas. This requires clear vision and leadership which the S4C Authority in its current structure is not equipped to do.

We will replace the S4C Authority with a new unitary board with both executive and non-executive directors. It will be responsible for discharging S4C's public service remit and ensuring it meets its regulatory duties. It will also oversee senior executive appointments, financial management and complaints. We agree that non-executives should constitute the majority of board members to provide effective challenge to the chief executive and executive team. We also agree these non-executives should be a diverse group with a strong mix of varied and complementary skills, experience and backgrounds.

The current S4C Authority structure is set out in legislation² and formally changing this structure will likely require legislative change which we will deliver when parliamentary time allows. However the government will agree interim arrangements with S4C to develop a shadow unitary board to ensure the existing S4C Authority operates as effectively as possible within the confines of the current statutory framework. We expect S4C to implement this shadow unitary board by September 2018.

Recommendation 7

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

The government accepts this recommendation and will give detailed consideration to the case for appointing the Comptroller and Auditor General (C&AG) as S4C's external auditor. The government fully respects S4C's objectives and editorial judgement, but S4C receives substantial public funding and we agree with the Chair's conclusion that there should be greater external accountability and scrutiny on whether S4C delivers its objectives in a cost-effective way. We note the Chair's findings that S4C has had the same external auditors for over 35 years and the potential risks around familiarity in the audit process which can arise when an auditor remains with an organisation for a long time.

² Section 56 Broadcasting Act 1990

The C&AG leads the National Audit Office (NAO), and appointing the C&AG as S4C's external auditor would improve transparency and parliamentary oversight. The government established the NAO as the BBC's external auditor in the new BBC Charter - doing the same for S4C would make NAO oversight of the licence fee more consistent and bring S4C's accountability arrangements in line with the BBC. The government notes that appointing the C&AG as S4C's external auditor should also include giving the NAO the power to undertake value for money studies of S4C activities.

The government will undertake further work in consultation with the C&AG to consider the merits of appointing the C&AG to this role, including examining the scope of any potential role. Delivering this recommendation would likely require legislative change, and the government would explore possible options which could be taken forward when parliamentary time allows. In the interim, we will work with S4C to consider whether any informal arrangements can be put in place to secure greater financial accountability.

On broader governance and accountability arrangements, the government notes the Chair's conclusion that the current regulatory arrangements for S4C are broadly effective. However we were concerned that these arrangements are not necessarily clear to stakeholders, many of whom are seemingly unaware that Ofcom already has regulatory responsibilities for S4C, alongside those held by the S4C Authority. Transparency is key and the government welcomes the Chair's suggestion that S4C works with Ofcom to consider how they could do more to inform stakeholders about the nature of their respective regulatory responsibilities. We look forward to receiving an update from S4C and Ofcom on how they will do this.

Areas beyond the scope of the independent review

Devolution

The Chair notes that a small minority of review contributors suggested that responsibility for S4C should be devolved to the Welsh Government. The government is clear that broadcasting is and will remain a reserved matter, regulated by the UK government. Broadcasters make an enormous contribution to the UK's economic and cultural landscape and it is right that the UK government retains responsibility for the sector. The government agrees with the Chair's assessment that calls for devolving responsibility for S4C are a distraction from the strategic priorities that S4C should be focusing on.

Level of S4C public funding

The level of public funding for S4C is outside the scope of this independent review and not an area under consideration by the Chair. It is for the Secretary of State for DCMS to determine that S4C's funding is sufficient and adequate to deliver its remit. To ensure stability for S4C, the government committed to freeze S4C's Exchequer funding at the current level until the review was completed.

We agree with the Chair's conclusion that updating S4C's public service remit does not require additional public funding. However we acknowledge that delivering other reforms such as developing an in-house digital content production hub may require S4C to re-allocate its existing resources.

As with all Exchequer funding, S4C's funding from government is subject to regular review. As part of an annual review process, the government considered S4C's current funding position and has decided to maintain S4C's Exchequer funding at the current level for the rest of this Spending Review period. This means the DCMS grant-in-aid to S4C will be £6.762 million per annum for 2018/19 and 2019/20. As with all other government funding, S4C's grant-in-aid for 2020/21 and 2021/22 will be determined at the next Spending Review. After 2022, all public funding for S4C will come from the licence fee, in line with recommendation 4.

We expect this additional funding to be allocated to taking forward the reforms in this review. The government believes this approach will give S4C the funding stability and certainty it needs for the next 2 years to deliver these much-needed reforms.

