



Department for Culture, Media and Sport

Government Response to the Welsh Affairs Committee's Report on S4C: Fifth Report of Session 2010-12

Presented to Parliament by the Secretary of State for Culture,
Olympics, Media and Sport by Command of Her Majesty
July 2011

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Introduction

The Government welcomes the report and has considered very carefully the evidence presented to the Committee. The Government notes the conclusions and recommendations set out in the report and is pleased to be able to present its response.

Response to conclusions and recommendations

1. We welcome the significant contribution that S4C has made to the Welsh economy since 1982. S4C and the independent television sector, from which it commissions much of its output, contribute approximately £90 million per year to the Welsh economy and are responsible for employing over 2,000 people. This is a story of success for the Welsh economy and should be built on in the future.

3. We welcome the key part that S4C has played in bolstering the everyday use of the Welsh language, which we consider to be a cultural asset not just of Wales but of the entire United Kingdom. Through a wide range of its broadcast output, S4C has brought the Welsh language into many homes where it may not have been heard previously. In addition, S4C has provided the opportunity for Welsh people to learn, through its education and children's programmes, and hear their language spoken as a normal part of their daily lives. We also recognise, however, that while the cultural benefit provided by S4C is compelling, the channel's prime purpose is to provide its viewing audience with popular, high quality television programmes which inform, educate and entertain.

Response to 1 and 3: The Government recognises S4C's contribution to the Welsh economy, particularly the Welsh independent production sector, and to Welsh cultural life. It is for this reason that the Government secured the future of S4C in the Comprehensive Spending Review.

2. We note concerns that too much of the economic benefit from S4C is gained by the region in and around Cardiff where S4C headquarters and most independent television producers in Wales are based. While we are not presently persuaded of the case for moving S4C from Cardiff in the current economic climate, we do, however, consider that it merits consideration at a future date. In the meantime, we urge the DCMS and S4C to make every effort to spread S4C's activities beyond its established bases to all corners of Wales.

Response to 2. Whilst this is a matter for S4C, the Government agrees that S4C should be encouraged to do more to spread the benefits of its public funding throughout Wales.

4. We note the claims by a number of witnesses that the figures provided by BARB and used by S4C to judge its performance are not reliable, particularly because they take no account of the number of viewers under four years old. We regret the misleading use of these figures by some commentators and note that the BARB figures are regarded by the BBC, S4C and other commentators as the industry “gold standard”. We have not been presented with any compelling evidence to suggest that the figures produced by BARB are unreliable.

5. We recognise that S4C is operating in a competitive and fast-moving digital market where television viewers have a much wider choice of channels than ever before. In the light of this, it is a positive achievement that S4C’s share of the viewing audience during peak times in recent years has held up remarkably well.

6. By presenting figures for those who watch S4C for just three minutes or more a week, S4C’s viewing figures appear more impressive than when using the comparative 15 minute metric reported by the BBC and Channel 4.

7. While 3 minute reach may be a useful metric to assess the commercial impact of a channel that carries advertising, S4C, as a public service broadcaster, should be assessed on a range of measures, including the number and proportion of those who watch the channel for at least fifteen consecutive minutes a week, a standard figure published by the BBC—including for its smaller, niche audience channels. We recommend that S4C include 15-minute reach measures in its future reporting.

8. Assuming the number of Welsh speakers is approximately 600,000 people, the viewing performance of some S4C broadcasts including the Welsh language fictional drama *Pobol y Cwm*, and *Pawb a’i Farn* compare favourably with equivalent BBC productions such as *Eastenders* and *Question Time*.

9. It appears that the majority of Welsh speakers do not watch S4C for three consecutive minutes a week. Approximately 155,000 Welsh speakers watch S4C for at least 15 consecutive minutes a week. This is a figure on which S4C itself acknowledges that it must improve.

12. We recognise the high quality of some of S4C’s output, such as its children’s programming and drama. It is also the case that S4C has reached and continues to reach significant audiences with particular programmes and coverage of events.

Response to 4-9 and 12: The Government believes that greater value-for-money can be achieved for the public funding that S4C receives. Whilst there have been some ratings successes, the Government envisages that the new S4C governance and funding model will provide greater opportunities for value-for-money arising from synergies and efficiencies. This will help to secure the future financial security of Welsh language broadcasting.

10. We recognise that S4C could perform better and therefore recognise the case for creating a new S4C: a multi-platform, multi-media broadcaster/publisher, which is answerable to Welsh audiences, and commissions and broadcasts Welsh language content only.

Response to 10: The new partnership with the BBC will explore these features and there will be a review of S4C's strategy and finances before the end of the Spending Review period.

11. The BBC states that the output it provides S4C is highly valued by S4C's audience, accounting for about one fifth of S4C's total output yet attracting around two fifths of the channel's viewing. Our findings confirm this.

Response to 11: The Government is aware of the value placed on the BBC contribution to S4C's programming. This arrangement will be preserved under the new partnership.

13. The DCMS should ensure that greater information about S4C's audiences and performance should be available to policy makers and the public. Although we welcome S4C's joint study with the Welsh Language Board on audience perceptions of S4C, we are surprised that it has taken the S4C Authority until now to address this shortcoming.

Response to 13: The Government recognises the importance of providing information to audiences. As an independent broadcaster, however, S4C itself has a responsibility to provide such information. The Government encourages S4C to do more on this under the new governance arrangements and to seek ways to maximise transparency.

14. Spending per head on broadcasting output in Wales is the highest of any of the four UK nations, driven particularly by public funding of S4C. While we received no hard evidence that S4C was operated inefficiently, the fact that S4C intends to reduce 40 administrative staff within the next year indicates there have been opportunities to make savings without necessarily affecting the quality of the channel's broadcast output.

19. While S4C must, like other public sector organisations, share its burden of cuts to its funding, we recognise the risk that this will come at a cost to the quality and volume of S4C's output. The DCMS, S4C and the BBC must work together to identify potential synergies and to eliminate wasteful duplications so that the impact of cuts to S4C's funding is minimised.

Response to 14 and 19: The Government's vision is that the new partnership with the BBC will result in synergies and efficiencies that benefit both S4C and the BBC. The Government will take this recommendation into account and ensure that these are given careful consideration as the discussions are taken forward.

15. We are concerned that S4C has for many years received substantial sums of public money without sufficient internal or external evaluation of its efficiency and the value for money of its service. The DCMS, over a number of years, has failed to provide this assurance. This is unacceptable and we recommend that the DCMS take immediate steps to redress the gap in S4C's financial accountability by subjecting S4C to regular audits by the National Audit Office.

Response to 15: S4C's financial accountability under the new partnership arrangements is currently under discussion and the Government will take this recommendation into account as the discussions are taken forward.

16. We are surprised that the BBC uses licence fee money to purchase private health care. We are also concerned that S4C has over a number of years provided private health care insurance for more than 100 employees. Although in May 2009 this benefit was not offered to new employees, it was not closed to existing staff. This has clearly been an inappropriate use of taxpayers' money, even more so at a time when the public sector, including S4C, is charged with making sometimes painful efficiency savings. S4C should set an example to other publicly funded broadcasters and end immediately this taxpayer-funded perk for all employees.

17. We conclude that, although there is scope for making efficiencies in its operations, in terms of providing Welsh language broadcasting, S4C provides value for money.

Response to 16 and 17: As independent broadcasters, staff remuneration for S4C and the BBC is a matter for the individual bodies.

The Government believes, however, that the value-for-money of S4C can be improved and will seek to ensure that the service achieves greater value-for-money under the new partnership arrangements and funding levels.

18. The Government proposes to significantly reduce public spending over the course of this Parliament. In the light of this, it would be difficult to justify the ring-fencing of S4C's funding. Any reduction in S4C's funding should be comparable to other public service broadcasters. We call on the DCMS to ensure that this is the case.

20. We recommend that the Government confirms the funding of S4C beyond 2014-15 as soon as possible. Without this certainty, S4C will not reasonably be able to develop its future strategy. Therefore, we believe that it is essential that there is a long term funding formula enacted in primary legislation.

21. We recommend that the DCMS work with the BBC and S4C to determine how S4C's funding can be guaranteed. We further recommend that S4C receive in full a portion of the Licence Fee which is at least equal to the amount set out by the DCMS in S4C's funding review settlement.

22. The proposal that most of S4C's funding should in future be provided through the licence fee is a significant development. We welcome the Government's and the BBC's commitment that the S4C programme budget will continue to be spent on

commissions from independent producers in Wales and call on the Government to ensure that this commitment is included in the documentation outlining the arrangement between S4C and the BBC.

Response to 18, 20-22: The new funding and partnership arrangements ensure that S4C's financial future is safeguarded.

The Government has secured ring-fenced funding for S4C for the entire comprehensive spending review period up to March 2015. This should be welcomed in the current fiscal climate and goes beyond the security given to many other public bodies. Beyond the spending review period, the Government is committed to ensuring that the new partnership arrangement will guarantee a level of funding that is sufficient to allow S4C to deliver its public service remit, as enshrined in legislation.

In line with other publicly-funded bodies, the Government cannot, however, confirm at this stage what that level of funding will be post-2015. The level of funding will be informed by the review of S4C's strategy and funding, which is scheduled to take place before the end of the current Spending Review period, once the new partnership has had time to bed in. The long-term performance of the service should be determined by outputs rather than by financial inputs and these outputs will be defined following the review.

The Government does not intend to implement a funding formula in legislation. However, as we have already committed, the Secretary of State will ensure that S4C has sufficient funding to deliver its public service remit.

The new partnership arrangements will reflect the Government commitment that all of S4C's commissioning budget will be spent in the independent sector, as now.

23. During 2010, the S4C Authority Chairman, the Chief Executive and the Head of Commissioning, left their positions in S4C, within six months of each other. These events gave the impression that S4C was more concerned with its internal differences than with its primary responsibility: the sound stewardship of a cherished institution.

24. We conclude that, whatever the deficiencies of Arwahanrwydd, its failure was primarily due to the failure of individuals in S4C to make the arrangement work, rather than any critical fault with its structure. The situation was compounded by the absence of any official or public explanation by the Board about the reasons for their departures. We are concerned by S4C's admission that its website did not include the minutes of any meetings of the Authority since December 2009.

25. The failings of the Authority to provide effective leadership for S4C during 2010 was particularly regrettable as it came at a time when the funding and governance of the organisation were in doubt. For a time, instead of being known for broadcasting drama, S4C became a drama of its own. S4C must never allow such a sorry situation to occur again.

Response to 23-25: The Government will take into account the findings of the Shortridge review of S4C's corporate governance in creating the new partnership arrangements. The new Chair of S4C is fully aware of the recent governance difficulties and the Government is confident that he will work hard to make the new governance arrangements a success.

26. On the evidence we received, it is apparent that the decision to fund S4C via the licence fee from 2013 onwards was made in haste. In a matter of hours a deal was struck between BBC executives and Ministers in London, without sufficient consultation with relevant parties. This is regrettable.

Response to 26: Given the scale and pace of the spending review and TV licence fee agreement discussions, it was not practical to have in-depth discussions with all interested parties ahead of the announcement. The timeframe reflected the Government's desire to put the UK's finances in order.

27. We welcome the commitment made by the DCMS and the BBC that S4C's editorial and operational independence will be maintained under any new partnership arrangement between the organisations. However, we have concerns about how this will work in practice. We call on the Government to spell out exactly how this independence will be guaranteed under the new arrangements.

28. We are concerned that the BBC, a national broadcaster and much larger organisation than S4C, will not necessarily have the particular interests of Welsh language programming as its primary focus. We note the possibility that under any new structure, S4C's distinctive voice will go unheard. We call on the Government and BBC to guarantee publicly that S4C remain solely a Welsh language broadcaster.

Response to 27 and 28: The detail of the new partnership arrangements is still being discussed and an announcement will be made in due course. The Government remains committed to the future of S4C as a strong and independent Welsh language broadcaster, retaining its editorial distinctiveness. This no intention of removing S4C as a statutory body nor merging it with the BBC. S4C's current public service remit, as enshrined in legislation, will remain and it will be the Secretary of State not the BBC who will continue to exercise powers of appointment over the Chair and of the S4C Authority. The relationship will be on the basis of a partnership.

29. We recommend that under any partnership made between the BBC and S4C, careful thought needs to be applied to any role played by the BBC Trust, to ensure that S4C's editorial and managerial independence is not compromised. We call on the Government to consider the appointment to the S4C Authority of individuals of sufficient independence and stature. Under any future management structure that is put in place, the management team responsible for the day to day operation of the channel, should comprise only S4C personnel.

Response to 29: The governance arrangements under the new partnership are still to be finalised but the Government has made clear that S4C will remain an

editorially distinct service. We have re-iterated that the relationship will be as a partnership.

30. We were pleased that the Government listened to concerns about S4C's inclusion in Schedule 7 of the Public Bodies Bill and by its subsequent decision to remove it from that part of the Bill.

Response to 30: At present, S4C is in Schedule 3 and Schedule 4 of the Public Bodies Bill. This is to give the Government the powers to modify S4C's constitutional and funding arrangements in order that the planned changes to S4C can be implemented. The Government is committed to consulting on S4C's new governance arrangements.

31. We note the arguments for devolving responsibility for S4C from the DCMS to the Welsh Assembly Government. Although we do not accept that now is the appropriate time to take this step, we do accept the case for an enhanced role for WAG and the National Assembly in the funding and scrutiny of S4C. We therefore recommend that the DCMS and WAG should consider an arrangement whereby WAG contributes to the funding of S4C and that the S4C Authority appear annually before the relevant Committee of the National Assembly for scrutiny of its Annual Report and Accounts. Furthermore, any future Broadcasting Bill should address the relationship between DCMS, Welsh Assembly Government and S4C.

Response to 31: The Government has no plans to seek funding from or make S4C accountable to the Welsh Government. Such a move would undermine the important principle that broadcasting is a reserved matter, to which the Government is fully committed.

Ministers are, however, fully aware of the desire of the Welsh Government that its views are taken into account. The Government is committed to consulting on S4C's governance changes and we will ensure that the Welsh Government is kept informed of this process. The Government continues to have discussions at official level and this provides the opportunity for the Welsh Government to feed in views as appropriate.

33. The Welsh Affairs Committee will also continue to monitor closely S4C and the terms of any partnership deal that it concludes with the BBC. We expect to take evidence again from S4C during this Parliament to gauge the success of the new arrangements.

Response to 33: The Government welcomes the views of the Committee on the partnership arrangements.

34. We are disappointed that, despite having the statutory right to do so, the DCMS has not undertaken a review of S4C. This has given weight to the argument of those that claim that the UK Government does not adequately appreciate the importance of S4C to Wales.

We recommend that the Secretary of State for Culture, Media and Sport should commission an independent review of S4C at least once every five years.

35. We believe passionately in S4C and recognise its importance to the preservation and promotion of the Welsh language. However, in the light of the events of the last year, we recognise the need to rebuild trust in the governance, management and mission of S4C. As a first step in the process of building trust, we recommend that the DCMS commission a wide-ranging independent review of S4C. This review should consult the wide range of parties with a stake in the broadcaster and should consider fundamental issues such as S4C's purpose, the appropriate size, scale and scope of the institution and its services, and its future funding and governance arrangements.

Response to 34 and 35: The Government is fully aware of the importance of S4C and is committed to consulting on the new governance arrangements with all interested parties.

The Government envisages a review of S4C's strategy and finances to conclude in good time before the end of the period covered by the Comprehensive Spending Review. The frequency and nature of future reviews will be balanced against the independent status of S4C.



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