

Impact Assessment (IA)

Date: 13/09/2011

Stage: Final

Source of intervention: Domestic

Type of measure: Primary legislation

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Title:
Impact Assessment on new funding arrangement for S4C
IA No: DCMS035
Lead department or agency:
DCMS
Other departments or agencies:
Cabinet Office

Summary: Intervention and Options

RPC: RPC Opinion Status

Cost of Preferred (or more likely) Option

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
NEG.	-£70m	£20m cost	No	NA

What is the problem under consideration? Why is government intervention necessary?

S4C is a public sector broadcaster, delivering a Welsh language service that receives Government funding. This service would otherwise be underprovided, in terms of what is politically desirable, without intervention. The existing arrangements links S4C's funding to the Retail Price Index (RPI). The Government is seeking to make the funding of S4C more flexible and to allow the Government to fund S4C in line with wider spending constraints, while ensuring that S4C continues to receive sufficient funding to meet its statutory duties. The Government propose to facilitate this by removing the funding formula for S4C and replacing it with a funding duty by including clauses in the Public Bodies Bill to amend the Broadcasting Act 1990.

What are the policy objectives and the intended effects?

The policy objectives are to secure a strong future for S4C and Welsh language broadcasting; ensure S4C receives maximum funding stability and long term reassurance; to ensure that S4C is able to offer the best possible Welsh Language Service to its audience; and to help the Government to reduce the fiscal deficit by reducing the level of public funding to S4C by 24.4% in this spending period. This will be affected through breaking the automatic link to the RPI for S4C funding from 2012 and giving the Secretary of State for Culture, Olympics, Media and Sport the duty to secure sufficient funding for S4C by making payments himself or by making arrangements with another person or organisation to do so.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- Option 0: Keep the funding the same (Do nothing option)
This option is included to serve as a theoretical baseline against which to assess the impact of Option 1 – which is the Government's preferred policy option.
- Option 1: Remove the RPI link (Preferred Option)
The preferred option involves removing the RPI funding link, the government to pay a portion of S4C's funding over the spending review period and for the SoS to enter into an agreement with another person (the BBC) to secure S4C's funding during and after the spending review period.

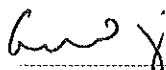
As S4C's funding is enshrined in legislation, these changes can only be affected through legislation. Non-regulatory measures will not produce the intended outcomes.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: 04/2015

Does implementation go beyond minimum EU requirements?	N/A					
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro No	< 20 No	Small No	Medium No	Large No	
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)	Traded: N/A			Non-traded: N/A		

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date: 8.12.11

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2011	PV Base Year 2011	Time Period Years 4	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: NEG.

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	Negligible	60	220

Description and scale of key monetised costs by 'main affected groups'

S4C's budget is reduced by approximately £110m (c.£105m in constant prices) over the Spending Review period. As S4C currently spends around 75% of their budget on Welsh independent producers, much of this impact is likely to be passed on to this sector, roughly £80m over the Spending Review period. From 2013/14 the majority of S4C's funding will come from the BBC, £152.3m (c.£145m in constant prices) in total.

Other key non-monetised costs by 'main affected groups'

It is possible that the quantity or quality of Welsh language programs broadcast by S4C could be negatively affected. This would result in a cost to wider society. Up to 40 jobs out of about 160 FTE may be lost at S4C over the next 2 years. Any broader impacts on jobs and output in the Welsh or UK economy are highly uncertain and will depend on wider economic factors, but this measure is not expected to have a substantial negative impact on either the Welsh or the UK economy.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	Negligible	60	220

Description and scale of key monetised benefits by 'main affected groups'

The Exchequer gains in two ways from option 1: a reduction in S4C's total budget, and a transfer of funding responsibility to the BBC. Under this option, S4C funding will cost the Exchequer £186.7m over the Spending Review period. This is a reduction of approximately £260m (c.£250m in constant prices) compared to the existing funding arrangement.

Other key non-monetised benefits by 'main affected groups'

The reduced funding for S4C may stimulate efficiency gains, both within S4C and in the Welsh Independent Production Sector. This would represent improved value for money in the delivery of a culturally beneficial service. Establishing the revised funding arrangement provides stability of funding for S4C.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Funding under the do nothing option has been projected forward in line with RPI forecasts, as published by the Office of Budget Responsibility. The funding that S4C would have received under the do nothing option in reality could differ from these projections. For the purposes of the analysis, funding under the do nothing option does not take into account the £2m reduction in expenditure to which S4C have already agreed for 2011-12.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: -20	Benefits: Negligible	Net: -20	No	NA

Evidence Base (for summary sheets)

Reference

No.	Legislation or publication
1.	S4C Economic Report 2010
2.	House of Commons Welsh Affairs Select Committee Report on S4C
3.	Spending Review settlement letter from DCMS to S4C: http://www.culture.gov.uk/images/publications/Jones_S4C.pdf
4.	Public Bodies Bill: http://www.publications.parliament.uk/pa/bills/cbill/2010-2012/0188/cbill_2010-20120188_en_1.htm

Background

Sianel Pedwar Cymru ("S4C") is a public service broadcaster established under the Broadcasting Act 1990, with a statutory obligation to provide television services of high quality for reception, wholly or mainly by members of the public in Wales and to ensure that a substantial proportion of the programmes broadcast on S4C are in Welsh.

S4C is currently funded by the Government by a formula set out in section 61 of the Broadcasting Act 1990 which is a cumulative retail price index (RPI) increase from November 1996 to November of the current year. On 11 July 2011, a written statement was made in the House of Commons setting out the Government's plan to reform the funding mechanism for S4C by removing the link with the RPI and add the relevant provision for removing the RPI/funding link to the face of the Public Bodies Bill currently in Parliament

The Broadcasting Act 1990 requires the BBC to provide not less than 10 hours of Welsh language programmes free of charge to S4C. The BBC estimates this to be worth around £20m every year.

Market context

S4C is the only Welsh language television broadcaster which provides Welsh language television programming to the estimated 600,000 Welsh speakers. Although this represents S4C's potential audience, in practice, S4C competes with other TV services (BBC, ITV, Channel 4, Five, Sky and other smaller broadcasters) for viewers as Welsh speaking viewers do not generally exclusively watch S4C.

In terms of other Welsh language broadcast services, BBC Wales broadcasts a Welsh radio station (Radio Cymru), has a Welsh language website, under statutory provision, provides at least 10 hours a week of programming to S4C, however, it is not a Welsh language TV broadcaster.

Independent Production Companies

S4C does not produce programmes in-house, but commissions work with the Welsh Independent Production Companies. S4C spends approximately 75% of its budget with the independent production sector in Wales. In 2011, it is envisaged that S4C will contract a total of 33 individual production companies to produce programming content for transmission. The independent production companies vary in size from small companies to one AIM-Listed company.

S4C funding and Government announcement

As part of the Government's commitment to increase the transparency and accountability of all public services, the Secretary of State for Culture, Olympics, Media and Sport has made it a priority to examine the DCMS network of public bodies with the aim of improving accountability and transparency and value for money. He confirmed in a Ministerial statement on 14 October 2010 that alongside changes to other

bodies he intended to reform the funding mechanism for S4C by removing its link with the Retail Price Index (RPI) and introducing a partnership arrangement with the BBC.

The Government is committed to Welsh Language programming and to the future of S4C as an independent service. The Government wants to ensure that the channel offers the best possible Welsh Language service to its audience and feels that the best way to secure its future while delivering a better service is through a partnership with the BBC.

The partnership arrangements should ensure an independent Welsh Language Service, retaining its brand identity and editorial distinctiveness, and that the service continues to meet the needs of the audience, whilst also helping the Government to reduce the fiscal deficit.

Problem under consideration

The Government is seeking increased efficiency of delivery at S4C as the existing funding mechanism has become unsustainable in the context of the public spending review. It was announced in October 2010 that S4C's funding will be reduced from 2011/12; and that from 2013/14 the majority of S4C's funding will come from the BBC Licence fee.

On 11 July 2011, a written statement was made in the House of Commons setting out the Government's plan to reform the funding mechanism for S4C by removing the link with the retail price index (RPI) and add the relevant provision for removing the RPI/funding link to the face of the Public Bodies Bill currently in Parliament. This is simply a change to the proposed legislative mechanism by which S4C's funding changes will be made and will give Parliament the opportunity to debate the change as part of the passage of primary legislation.

Rationale for intervention

As S4C's funding is enshrined in legislation, these changes can only be effected through legislation. Non regulatory measures will not produce the intended outcomes.

In the context of the Comprehensive Spending Review, Government is seeking greater efficiency in the service provided by S4C. Improved efficiency would mean that the benefits from S4C's service could be delivered with greater value for money to the Exchequer. The main economic and social benefits from S4C, beyond its contribution in output and jobs, are outlined below. The proposed policy, removing the funding link with RPI, is intended to make achieving these benefits more cost effective.

Positive Spillover Effects

S4C provide a high quality service, which can leave viewers better informed, or enhance their knowledge of Welsh language and culture. Individuals therefore gain more from watching S4C, for example through obtaining better information, than they may realise. The service provided by S4C can therefore be classed as a merit good, which is undervalued under usual market mechanisms. As a public sector broadcaster, one person's viewing of S4C broadcasts does not prevent others from viewing them; and S4C cannot feasibly prevent anyone from viewing its service in areas to which it broadcasts. In other words, S4C's service is a public good, warranting Government intervention. In addition, S4C's focus on Welsh language and cultural programming leads to positive cultural spillovers, for example through generating interest and engagement in Welsh cultural events. All of these effects mean that Government intervention into the market is required to avoid under-provision of this type of service.

Plurality

The presence of S4C increases plurality in the Welsh television sector. S4C provides an alternative source of information and entertainment to other public and private sector broadcasters. This ensures that viewers can access different perspectives and helps increase the reach of public sector broadcasting to different audiences. In addition, the focus of S4C on commissioning programmes from a number of independent Welsh production companies enhances plurality in production. Increased plurality of broadcasting and production is likely to stimulate greater competition, improving the quality of public sector broadcasting in Wales.

Policy objective

The policy objective is to ensure that S4C continues to offer the best possible Welsh language service to the audience, whilst also helping the Government to reduce the fiscal deficit by reducing the level of funding to S4C by 24.4% in this spending period. The Government proposes achieving this through:

- 1) Breaking S4C's funding link to the RPI; and
- 2) For the Secretary of State to discharge the duty of securing sufficient funding for S4C by making the payments himself or entering into an agreement with another person for that person to do so.

Options

Two options are being considered:

1. Keep the funding the same (do nothing option)

This option is included to serve as a theoretical baseline against which to assess the impact of Option 1, the proposed statutory instrument, which is the Government's preferred policy option.

2. Option 1: Remove the RPI link (preferred option)

The preferred option involves removing the RPI funding link which will reduce S4C's funding by approximately 24.4% over the four years of the spending review from 2011/12 to 2014/15. The decision to break the RPI funding link for S4C was agreed as part of the Comprehensive Spending Review as the existing funding arrangements were not considered sustainable in the context of the Government's deficit reduction strategy. At the same time the Government announced that the BBC and S4C would enter into a partnership arrangement.

Cost-Benefit Analysis

There are direct impacts on S4C, the BBC and the Exchequer from the proposed policy option. There may also be an impact on the service provided by S4C, which will be determined by the extent to which efficiency gains can be made. On the one hand, if S4C and the Welsh Independent Production sector are able to achieve sufficient efficiency savings, then a similar quality and quantity of programs can still be supplied, but with improved value for money to the Exchequer. On the other hand, if S4C and production companies cannot find enough efficiency improvements, then either the quantity or the quality of Welsh language programs broadcast by S4C may be reduced. Hence the overall impact is subject to a degree of trade-off between achieving value for money, and quality or quantity of programs.

Costs under do nothing option

It is estimated that the existing arrangement linking S4C funding to RPI will cost the Exchequer approximately £450m (£430m in constant prices) over the four years of the spending review period. This is based on a funding agreement of £106.4m for 2011-12, trended forward in line with RPI determinants from the Office of Budget Responsibility thereafter, as set out in table 1 below.

Table 1: S4C's projected budget under do nothing option (£m nominal)

Year	Projected S4C RPI funding*
2011/12	106
2012/13	110
2013/14	114
2014/15	118
Total	449

*Figures may not sum due to rounding. These figures provide an update on previous estimates to incorporate RPI determinants published by the OBR in March 2011.

Benefits under do nothing option

There are positive spillovers resulting from S4C's existing service, particularly through the public good and merit good nature of their broadcasts. S4C plays an important role within the culture and heritage of Wales. S4C also increases plurality in the Welsh television sector, providing an alternative to other public and private sector broadcasts; and commissioning programmes from the Welsh Independent Production sector.

S4C does not produce programmes in house, but commissions work from Welsh independent producers. According to the [S4C Economic Report 2010](#), S4C spends about 75% of its budget on the Welsh Independent Production sector which in turn spends money in the Welsh economy. S4C spend on independent productions accounts for about 60% of the sector's revenue. According to the report, in 2010 the impact of S4C on the Welsh economy is estimated to be £88m, indirectly supporting about 2,000 jobs.

Costs under preferred option

The Secretary of State will exercise the duty to secure sufficient funding for S4C by making payments himself or entering into an agreement with another person to do so. In practice, this will mean that S4C would be funded by the government through the Department for Culture, Media and Sports (DCMS) for the 2011/12 and 2012/13 financial years. The government will continue to provide some funding until 2014/15, but the majority will be provided by the BBC.

Table 2: Preferred option for S4C funding (£m nominal)

Year	DCMS	BBC	S4C Total
2011/12	90	0	90
2012/13	83	0	83
2013/14	6.7	76.3	83
2014/15	7	76	83
Total	186.7	152.3	339

Table 3: Change in S4C funding sources under preferred option 2011/12 to 2014/15 (£m nominal)

S4C Funding	Do Nothing (projected)	Option 1	Change
from DCMS	449	187	-262
from BBC	0	152	152
Total	449	339	-110

The Secretary of State has committed to a review of S4C's strategy and finances to be concluded in good time before the end of the spending review period.

S4C costs

Total S4C funding over the spending review period will be £339m under the preferred option. This is a reduction of approximately £110m (£105m in constant prices) over the spending review period compared to the projected baseline under the do nothing option.

The impact of the reduction in funding will depend upon decisions made by S4C. Evidence given at the House of Commons [Welsh Affairs Select Committee on S4C](#) indicated that up to 40 jobs will be lost at S4C over the next 2 years as a result of the reduction in funding. S4C currently employs about 160 FTE staff. These job losses have not been monetised because they are subject to decisions made by S4C on how their budget is spent.

In addition there may be some transitional costs as S4C adapt to closer working with the BBC, but the scale of these costs is very uncertain at this stage and will depend upon decisions made by S4C and the BBC. The transitional costs purely from the change in funding arrangement alone are not expected to be substantial.

Welsh Independent Production sector

It is likely that the reduced funding for S4C will in turn affect S4C's suppliers. As about 75% of S4C's grant in aid is spent on commissioning work from Welsh independent production companies, this sector is likely to be particularly affected. Assuming that funding for the Welsh independent production companies remains a similar proportion of S4C's revised budget, the sector's income is estimated to reduce by around £80m over the spending review period. However, this reduction is uncertain and will depend on S4C's ability to make savings or raise funds elsewhere following their funding cut.

As the majority of revenue in the Welsh Independent Production sector is from S4C, there may in turn be some effect on jobs in the sector. However, this is again uncertain and will depend in part on the sector's ability to find funding from other sources. There is tentative evidence that the sector has been gradually becoming less reliant on S4C. According to the [S4C Economic Report 2010](#), turnover in the Welsh Independent Production sector grew by 8% from 2007 to 2009, twice the 4% rate of increase in funding from S4C over the same period.

BBC costs

As shown in table 2, from 2013/14 until 2014/15, the majority of S4C's funding will be from the Licence fee. The funding level will be £76.3m in 2013/14 and £76m in 2014/15 amounting to £152.3m (approximately £145m in constant prices) over the spending review period. In addition, in line with the Broadcasting Act 1990, the BBC is expected to continue to provide at least 10 hours per week of Welsh language programmes free of charge to S4C. The BBC estimates the cost of this is around £20m every year. The provision of BBC programmes to S4C in line with the Broadcasting Act 1990 is unaffected by this change.

In addition there may be some transitional costs as the BBC adapt to closer working with S4C. Once again, the scale of these costs is uncertain at this stage and will depend upon decisions made by S4C and the BBC. The transitional costs purely from the change in funding arrangement alone are not expected to be substantial.

Other costs

Any broader impacts on jobs and output in the Welsh or UK economy are highly uncertain and will depend on wider economic factors, but this measure is not expected to have a substantial negative impact on either the Welsh or the UK economy.

Benefits under preferred option

Exchequer benefits

As shown in tables 2 and 3, the Exchequer gains in two ways from option 1: a reduction in S4C's total budget, and a transfer of funding responsibility to the BBC. Under the proposed option, S4C funding will cost the Exchequer £186.7m over the spending review period. This is a reduction of approximately £260m (£250m in constant prices) compared to the existing funding arrangement.

Efficiency gains

The proposed option may result in efficiency gains within S4C, as they seek to maintain high quality broadcasting standards with reduced funding. Improved efficiency would mean that the positive spillovers and plurality gains from S4C's service could still be achieved, but at less cost to the Exchequer. The indirect impact of a reduction in funding for the Welsh Independent Production sector may also increase competition for commissions, stimulating further efficiency gains.

Whilst S4C will remain an independent service retaining its brand identity and editorial independence, it is expected that the partnership with the BBC would result in economics of scale, for example potentially arising from shared operations and facilities. Closer working will give S4C greater access to the BBC's considerable experience and expertise in the Welsh Television sector and in broadcasting more generally.

Summary of monetised costs and benefits

The costs and benefits under option 1 are summarised in table 4 (in constant prices). As around 75% of S4C's budget currently goes to Welsh independent producers, much of the cost to S4C is likely to be passed on to this sector. On this basis, the cost to the Welsh Independent Production sector is estimated to be roughly £80m (£70m in present value terms) over the Spending Review period.

Table 4: Summary of Monetised Costs and Benefits (£m constant prices)

		Total	Average Annual	Present Value
Costs	BBC	145	35	125
	S4C	105	25	95
	Total	250	60	220
Benefits	DCMS	250	60	220
	Total	250	60	220

Risks and assumptions

Funding under the do nothing option has been projected forward in line with RPI forecasts, as published by the Office of Budget Responsibility. The funding that S4C would have received under the do nothing option in reality could differ from these projections. For the purposes of the analysis, funding under the do nothing option does not take into account the £2m reduction in expenditure to which S4C have already agreed for 2011-12. In estimating the costs passed on to Welsh independent producers, it is assumed that S4C continue to spend a similar proportion of their budget on this sector after the funding change. This is uncertain and will depend upon decisions made by S4C.

Direct costs and benefits to business calculations (following OIOO methodology)

The impact on S4C is a spending decision and is therefore outside of the scope of One-in One-out (OIOO).

Competition Assessment

A reduction in budget may reduce the ability of S4C to compete with other broadcasters in comparison to under the do nothing baseline.

Small Firms Impact Test

Most Welsh independent production companies are relatively small and could be classified as small and medium enterprises (SMEs). Hence an impact on these SMEs will follow once S4C decides to what extent it will reduce spending on commissioning independent productions. There is likely to be a reduction in funding from S4C to these businesses, estimated to be roughly £80m over the Spending Review period. However, independent production companies competing for a reduced budget could stimulate more efficient and innovative solutions, for example potentially resulting in firms entering into more co-production, co-funding and collaborative working.

Social Impact

The reduction in S4C's funding could potentially impact the quantity or quality of commissioned programmes. If this is the case then the positive spillovers and cultural benefits to Wales from S4C's broadcasts would be reduced as a result. However, this effect is uncertain and will depend upon the extent to which S4C and production companies are able to make efficiency savings. Whilst S4C will retain its independence, closer working between S4C and the BBC could reduce plurality in the Welsh Television sector.

Statutory Equality Impact Tests

We have also considered the potential effects of these proposals on protected groups under the Equality Act 2010 (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation). After initial screening it has been deemed that no significant impact is anticipated.

Other specific impact tests

Other specific impact tests have been considered including Justice, Sustainable Development, Carbon Assessment, Environment, and Rural Proofing. After initial screening it has been deemed that no significant impact is anticipated in any case.