



Response to Ofcom  
“A new approach to public service media content  
in the digital age”  
23<sup>rd</sup> March 2007

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Ofcom discussion paper –  
“A new approach to public service media content in the digital age”

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1. We agree with the statement that public purposes should endure and be strengthened in a digital only environment. Intervention is and will continue to be required to maintain economic, social and, in S4C's case, linguistic and cultural benefits.

By adapting to changing audience needs and developing a more rounded view of multi-platform content requirements, we believe that vulnerable areas of the current public service broadcasting system can survive and develop in the digital age.

2. This has led S4C, like other broadcasters, to extend the reach and impact of commissioned content and to provide appropriate entry points to users via new delivery and distribution methods in addition to linear television.

We disagree that current broadcasters regard new media only as "new space". Innovation in on line learning and children's content is a particular feature of S4C's contribution to date. In addition, content commissioned for television has been tailored to develop online communities of interest such as ffermio.tv and bandit247.com. The accessibility of Welsh language content to a global audience is also being exploited.

It is however the case that the type of content envisaged as part of the public service publisher (PSP) is not widely available as yet.

3. We share Ofcom's concern for specific areas of public service broadcasting going forward, in particular children's programming.

S4C's Programme Strategy, published in 2004, identified the provision of children's content as a priority area for expansion. The S4C Authority is to consult on proposals to establish a dedicated children's service which would seek to address the specific needs of this critical audience both in terms of the content proposition and platform delivery. Original production of culturally relevant material is a primary consideration.

4. The discussion on non-news programming as it relates to English language provision in the Nations and Regions is of indirect interest to S4C as a Welsh language broadcaster.

However, we recognise that this forms a very important part of the broadcasting ecology in which we currently operate and are mindful of the impact any further diminution will have on viewers and regional production.

5. Concern for the future prospects of specific areas of current provision, including news, has legitimately led to the exploration of a potential role for an additional player in the form of the PSP. As acknowledged in the discussion paper, the PSP would not be the sole answer and its merits can only be clearly identified when considered alongside the work to be undertaken by Ofcom on all major areas of concern.



6. Whilst additional innovation and plurality would be a welcome consequence of adopting a new approach to public service media content in the digital age it may not follow that this can only be achieved by introducing a new organisation.

We believe that a mixed approach, combining linear television and digital media, is essential and builds on current realities.

As a publicly funded broadcaster it is essential that S4C and our production partners identify opportunities to extend the use and value of commissioned content. S4C Masnachol, the commercial arm, also needs to be able to respond to market demands for cross platform airtime sales and sponsorship.

7. We cannot therefore envisage a situation where new media content is divorced from the investment in linear television programmes. The dynamic between new media content and television programmes is an increasingly important feature of S4C's commissioning process. This, in addition to other sectoral changes, has prompted a complete overhaul of S4C's training strategy so as to develop transferable multi-platform and cross-platform skills.
8. We believe that continuing to adopt measures to promote the growth and capabilities of independent production companies and other content suppliers is an important means by which the delivery of additional innovation and plurality can be achieved.
9. S4C's policies in relation to Welsh language content have increased the emphasis on high quality, UK originated content with contestability being a major feature of our commissioning process and procurement of other services.
10. A review of the S4C supply chain is being undertaken at present to ascertain the levels of sustainability, financial efficiency and prospects for increased creativity and innovation.
11. This review is happening concurrently with an analysis of our contested development contracts and an invitation for content creators to apply for a reassignment of rights in S4C commissioned programmes. This is over and above the requirements of the Communications Act 2003 and is based on a policy of encouraging the growth of the independent sector and the creative economy in turn.
12. Our view is that public intervention through a commissioning body such as S4C can adopt a rights regime which allows businesses to develop and exploit opportunities, in particular in new media. S4C is already a non-commercial business model with a progressive approach to rights.
13. A commissioner model rather than a producer model has already delivered a plurality of content providers as evidenced by the S4C model. However, without an appropriate commissioning process and rights regime the actual model will not, of itself, guarantee the provision of high quality, UK originated and innovative content. The same applies for the impact of any decision to locate the PSP outside London. Again the commissioning process and rights regime are critical to its success.



14. The level of funding proposed for the PSP must reflect the perceived shortfall in the level of commercial investment in specific areas. However, whatever the level of available funds, we believe the PSP should be created using a bottom up approach as opposed to establishing a version of a current new media player or large broadcaster.
15. We believe that a strong brand identity would not necessarily be unhelpful for the PSP given the importance of enabling users to navigate their way through vast amounts of content. The assumptions made about the benefits of a "facilitator brand" need to be tested.
16. A copy of S4C's submission to the CMS Committee inquiry on public service media content is provided, giving detailed information about the changes being implemented to deal with the challenges of the digital age.

23/03/07



S4C's memorandum  
in response to the inquiry of the  
Select Committee for Culture Media and Sport  
on the Public Service Media Content  
18<sup>th</sup> January 2007

## **1. Executive Summary**

- 1.1 S4C has over the past two years set about on a radical programme of reform with an eye on digital switchover and changes to the wider creative industry. We set out below our vision for the future of Welsh language audio visual, public service content, funded in the main by grant in aid coupled with a contribution from the licence fee and commercial revenue.
- 1.2 Our Welsh language service and those of the other indigenous language broadcasters, CCG and TG4, are a vital element in delivering plurality and diversity to enrich and reflect the cultural life of the UK for the benefit of the whole of the UK. Both Professor Laughton's Independent Review of S4C for DCMS in 2004 and Ofcom Review of Public Service Television Broadcasting in 2005 remained committed to the provision of Welsh language television services post switchover.
- 1.3 S4C suffered a steep decline in viewing figures at the beginning of the millennium and questions were raised about the sustainability of the S4C services post switchover. Our 2004 Creative Excellence Strategy and the ongoing programme of reform is our answer to the challenges of the new multiplatform, multimedia environment. Whilst we are the only Welsh language broadcaster we operate in a competitive environment against the best of the UK's creative industry. The Creative Excellence Strategy has necessitated wiping away institutionalism whilst retaining core values. The strategy appears to be reaping rewards, most importantly, on screen, with improved viewing figures. In addition our relationship with key stakeholders, including Ofcom, the BBC and the independent sector have been transformed, all of which are vital to the sustainability of our unique services.
- 1.4 We have not sought to answer each of the specific questions posed by the Committee. We have attempted to address those most relevant to S4C whilst setting out a vision of S4C's future path to provide a picture of our role within the UK public broadcasting landscape.

## **2. S4C Services**

- 2.1 The public service remit for S4C on analogue is: a broad range of high quality and diverse programming, in which a substantial proportion of the programmes consist of programmes in Welsh; and, programmes broadcast for viewing between 18.30 and 22:00 every day of the week consist mainly of programmes in Welsh; and, the programmes that are not in Welsh are normally programmes which are being have been or are to be broadcast on Channel 4 [CA03 sch12 p2].
- 2.2 The public service remit for S4C digidol is: a broad range of high quality and diverse programming in a service in which a substantial proportion of programmes consist of programmes in Welsh.[CA03 sch. 12. p 2].
- 2.3 Post switchover we understand that the remit for S4C digidol will be our main public service remit. This means that the main public service channel will, like S4C digidol, remain a mainly Welsh language Channel.

## 2.4 Services currently provided by S4C

Name of service	Nature of Service	Platform	Access and Footprint
S4C	At least 37 hours of Welsh-language programming, per week. Welsh only during peak hours and best of Channel 4 at other times	Analogue	4 in Wales
S4C digidol	Up to 80 hours of Welsh language programming per week. At least 12 hours of broadcasting per day.	Digital terrestrial  Digital Satellite (including red button and interactive services)  Digital Cable  Freeview	104 in Wales  104 in Wales and 135 throughout UK  194 in Wales  4 in Wales
www.s4c.co.uk/e.watch	Welsh language programming has been available to watch since January 2006.  Live streaming of major Welsh events.  During 2007 we will increase the number of hours of live streaming of S4C digidol.	Broadband	UK (apart from where restricted by rights).  Worldwide (apart from where restricted by rights).  UK (where rights allow worldwide).
www.learnons4c.co.uk	Dedicated service for Welsh learners using S4C programmes as a learning tool	Broadband	Available worldwide
Freewire	In the very near future streaming of S4C digidol through Partnership with INUK	IPTV	Available on the Freewire portfolio for University campuses.

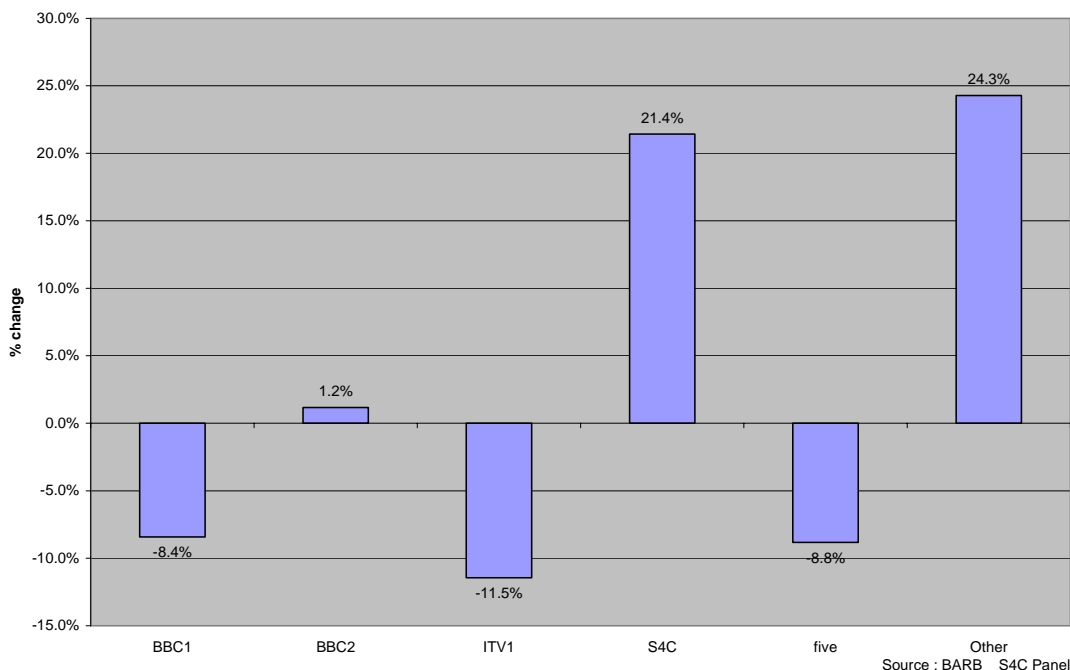
S4C2	<p>Welsh Assembly Coverage 09:00-18:00 Tuesday-Thursday Additional coverage of national events.</p> <p>NB This service is funded from S4C Commercial revenues and a partnership with the BBC</p>	<p>DSat</p> <p>DTT</p> <p>D Cable</p>	<p>507 throughout UK</p> <p>86 in Wales</p> <p>195 in Wales</p>
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### 3. Creative Excellence

- 3.1 It is by now well documented that with high digital penetration in Wales viewing figures and key relationships suffered with the onset of digital in the late '90s and early '00s. It is fair to say that S4C was caught out by the new environment and a new approach was required for Welsh language audiences. The programme of reform was supplemented by the Laughton Independent Review of 2004 and Ofcom Review of Public Service Television Broadcasting in 2005.
- 3.2 There is inevitably a dichotomy between the delivery of a service which is of a broad range, but must also be high quality within a finite budget. The key to S4C's success will always lie in getting the balance right. We set out to address the challenge with the publication of our 2004 Creative Excellence Strategy, geared to positioning our services as leading providers of high quality content - including live events, children's, drama, culture, news, entertainment, rural and lifestyle programmes. The other key commitment made in 2005 was to improve our relationship with our key suppliers, the independent production sector and the BBC for the benefit of our audiences.
- 3.3 Our Creative Excellence Strategy (published mid 2004) appears to be bearing fruit. In contrast to the trend for most other terrestrial broadcasters we are showing increases in our viewing during the all important Peak Hours (i.e. the hours in which the substantial proportion of programmes are in Welsh). During 2006 S4C succeeded in increasing viewers watching during Peak, with an increase of 3% year on year. This is the second successive year that we have seen an increase in the crucial Peak Hours. Over a two year period there is an increase of 15% in the '000's viewing.
- 3.3 Our share of all viewing for Peak Hours was 3.4% during 2006. Another increase of 10% on the year-on-year share. Again this was the second successive year that we showed an increase, and since 2004 we have seen an increase of 21% in our share of all viewing during the Peak Hours. [Please see graph 3.4 (i) and 3.4 (ii) below.]

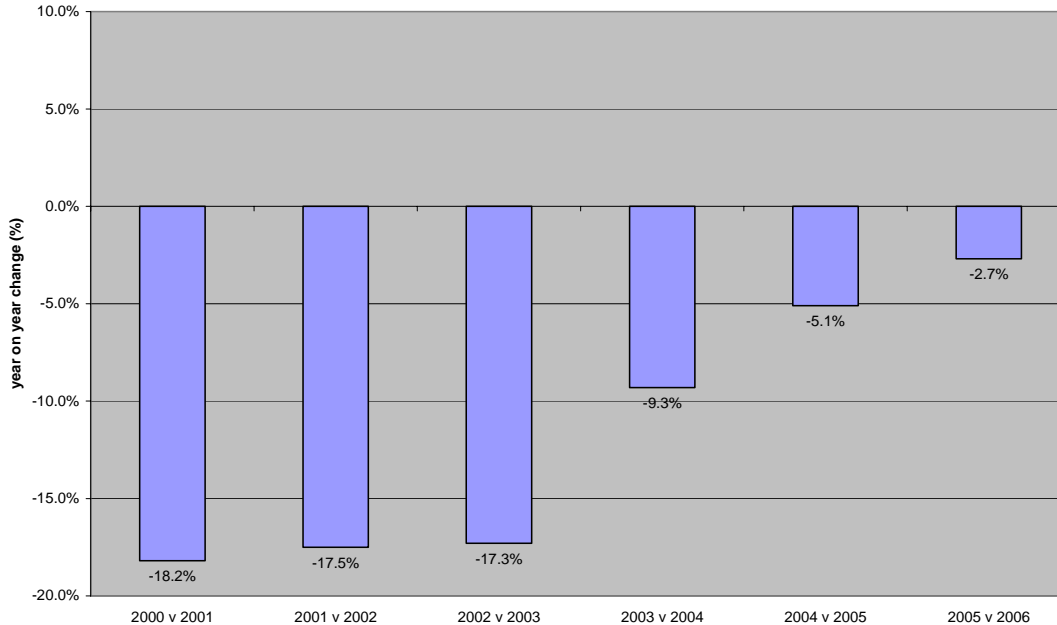
#### Graph 3.4 (i)

Graph to show the changes in Share all viewers in Wales during peak hours (2004 v 2006)



### Graph 3.4(ii)

Graph to show the % change year on year since 2000 in S4C's share all viewers in Wales during peak hours



3.5 Welsh language programming across the schedule increased reach during 2006. This is the first increase in reach since 2002.

3.6 Additionally, our qualitative measures shows that our audience appreciate our content. The Appreciation Index for 2006 measured 22 genres, out of which appreciation for our service was higher than the average for all channels in 18 genres, equal in two and lower in two. [Please see Appendix 1].

## 4. The future of key areas of public service media content such as news provision and children's programming

### 4.1 Children and Young People

4.1.1 We are committed to providing content for children and young people. We have doubled our financial commitment to our provision for pre school children over the past two years. Over 1,100 hours of children's programming were broadcast on S4C in 2006. One of the main aims of our Creative Excellence Strategy was to make our services more attractive and relevant to people of all ages. The need for us to engage with young people becomes even more apparent when looking at the changing pattern of Welsh Speakers. Today, 21% of the Welsh population speak the language and the number of young Welsh speakers continues to rise. According to the 2001 Census, there was a 50% increase in the number of 5-24 year olds who can speak Welsh. To reflect this trend we have a policy of providing English language subtitles on content for the benefit of English speaking parents of pre school children.

- 4.1.2 Following a target that was set in 2006 to decrease the age of our audience, 2006 saw the proportion of our audience under 45 at 31% - an increase of 24%<sup>1</sup>. We wish to increase this proportion and the number of younger viewers even further in 2007.
- 4.1.3 A challenge that we are currently seeking to address is to deliver content with which young people and children wish to engage and this in a converged world which is lacking in Welsh language content. To this end it is not only the content but the means of delivery which are key. With the publication of a tender to produce our presentation of interstitial broadcast material for children across television and the web (expected January 2007) we have set another challenge for the independent sector in Wales. We look forward to seeing creative and innovative ideas from the sector.
- 4.1.4 If we want to reach children and in particular young people we have identified the need for dedicated cross platform services. Dependant on the outcome of the tender, our current intention (which we have begun discussing with DCMS), is the launch of cross platform Welsh language services for children and young people (including a television channel) in time for our 25<sup>th</sup> anniversary in November 2007.
- 4.1.5 We will not be seeking additional funds for the launch of these services.

## 4.2 **News**

- 4.2.1 News provision is of particular importance to our services. We are the only outlet for Welsh Language television news. Our news services are provided by the BBC. Plurality in news provision will always be difficult if not impossible when there is only one Welsh language broadcaster.
- 4.2.2 Under the terms of the new strategic partnership with the BBC (for more details see below) there will be a review of the presentational and editorial news direction and interactivity via red button will be introduced. During 2007 we will carry an interactive service for the Welsh Assembly elections. Our nightly news programme is currently scheduled at 19:30 with a bulletin during peak and we envisage a prime slot will continue in the future. We are extending our news provision for young people during 2007.
- 4.2.3 Our current affairs programmes are in line with Ofcom quotas and are commissioned from several different sources. This enables us to provide a degree of plurality for the viewer. We are committed to continuing to commission our current affairs programmes from more than one source and to schedule a significant proportion of the same in peak.

## 5. **The delivery of our services in a converged world – the case for provision of public service material on new media and outside Wales**

### 5.1 **Due Prominence**

- 5.1.1 There is a must carry obligation in Wales in respect of our public services. The continuation and extension of a must carry obligation coupled with a requirement for due prominence for our services are crucial to the future success of S4C. The imposition of a requirement for S4C's public services to be placed in a bouquet with the other public service channels with due prominence is crucial if public services are to retain their value. With a 25 year history as the fourth channel in Wales it is vital that we retain that position post switchover.

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<sup>1</sup> The number of young viewers also increased during 2006 by 30%.

5.1.2 We have recently announced a new identity and brand for S4C. The adoption of this multimedia branding strategy is aimed to place S4C in a strong position in the deregulated converged market when users are looking for high quality Welsh language content. Whilst we support deregulation a voluntary commitment by the main engines/gatekeepers to provide due prominence to public service providers would undoubtedly assist in ensuring that our content is as widely accessible as possible.

## **5.2 Extending Reach and Providing an Opportunity to view throughout the UK**

5.2.1 It is essential that we achieve maximum impact for our public money. Our multimedia strategy is designed to address both delivery of current content and the provision of new content. It is by now expected that users be provided with several opportunities to view across all the most popular platforms. The commissioning process takes into account the multi delivery options most suitable for the different genres and we are already providing public service material on new media through our broadband services and the upcoming IPTV and further in the future, other relevant new media. We are committed to ensuring that our content is available free-to-air to our viewers and users.

5.2.2 The 2001 census indicated that there are 158,000 Welsh speakers living outside Wales in the UK. Our contribution should not be limited to sustaining the Welsh language and culture exclusively in Wales. It should be available to the Welsh Diaspora and those with an interest in our content (our sports and music coverage is already enjoyed by non Welsh speaking music and sports lovers throughout Wales and we carry English subtitling on all of our content).

5.2.3 TG4's obligation to reach the Irish Diaspora highlights the need to promote the diversity of culture which is provided by indigenous language broadcasters, throughout the UK and beyond. We are currently available on Sky and broadband throughout the UK and we will be setting up research projects during the year to more accurately measure our audiences on Sky outside Wales. We believe that we should be available to the public across all the major platforms throughout the UK and have requested the BBC and DCMS to consider post switchover, carriage of our public services throughout the UK.

5.2.4 Our ambition is global. We are aware that there is a market for S4C content abroad and for promoting and reflecting a modern Wales throughout the world, (for example S4C programmes were sold to over 31 different countries during 2006). Subject to rights clearances and the requirements of our content providers, convergence allows this to become a reality by opening up new opportunities. Last year, our website, featuring coverage of the Llangollen International Eisteddfod, received 707,000 hits from people from around the world. Our recent call to arms for the Jones' of the world to collate and break a world record saw us reaching through press coverage over 27 million North Americans. It also saw participants from the US, Australia and beyond visiting Wales for the first time to enjoy our unique cultural heritage.

## **6. Creation of Content**

### **6.1 The Independent Sector in Wales**

6.1.1 We are a commissioner/broadcaster. Our relationship with the independent sector in Wales is the cornerstone of our Creative Excellence Strategy. Unlike the BBC we do not produce our own programmes<sup>2</sup>. Like Channel 4 our content is commissioned from the independent sector but unlike Channel 4 it is more difficult for us to acquire foreign programming. We are committed during 2007 to commissioning 95% of hours from the independent sector, equating to a spend of at least £70m. The majority of our content is commissioned in accordance with the Code of Practice and Terms of Trade (and annually reviewed). Independent producers retain the copyright in content commissioned by S4C and provide a licence to S4C.

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<sup>2</sup> With the present exception of our weather bulletin.

- 6.1.2 We consider that the development of a strong creative industry is one of the functions of a public service broadcaster such as S4C. Within Wales we have an important role to play in supporting this key agenda.
- 6.1.3 We have a policy of tendering all major contracts to ensure transparency and contestability and to support consolidation within the industry. We acknowledge that there is no one model to ensure creative success but we believe that: facilitating exploitation of rights by independent producers; increasing contestability; investing in development; providing advance notice of longer term technical requirements, and, investing in training will go some way to empowering the sector, both creatively and commercially.
- 6.1.4. For example, our 2005 development tender changed the way we fund development. Rather than support piecemeal projects, a substantial tender was won by 5 companies enabling external producers to put in place sustainable frameworks. Such a framework further allows for leveraging, talent development and a greater degree of long-term planning than may have been previously possible. A tender in 2006 for animation projects in Wales saw the establishment of a £500,000 development and production fund. The fund was awarded to 3 companies to develop a range of creative animation projects across different genres and for multiplatform use. The participants saw this as a “stepping stone to more ambitious and far reaching work”.
- 6.1.5 Additionally, we are the only broadcaster to have embarked on a systematic re assignment of the rights to our back catalogue to the original producers (subject to certain criteria being met). There may be more to do and we are funding an independent review of our Supply Chain during 2007.
- 6.1.6 During the year we hope to draw up fair trading guidelines to ensure that any activity undertaken in new areas does not cut across the emergence of secondary markets or market based initiatives in the Welsh language. We have indicated above that it is our duty to provide our content across new media and to reach as wide an audience as possible. However, we are also aware that we must be careful not to fund initiatives that could stifle potential commercial projects. Our role as a public service provider is to deliver content on a multiplatform basis that would not be provided by the market. Our approach to date has been to partner with companies in Wales but we do not have a strategy of commercially exploiting broadband content (other than through advertising and sponsorship).

## **6.2 Licence fee Funded Content**

- 6.2.1 The BBC is required by statute to provide us with up to 10 hours of programming per week. 2007 marks the start of our new strategic partnership with the BBC. The BBC contribution is vital to the sustainability of our services and the BBC is committed to spending £72m on our services over the next 3 years. For the first time we will have control over the commissioning of content from the BBC and control over how the proportion of the licence fee set aside for S4C will be spent in accordance with the White Paper on the future of the BBC. We will obtain the same rights in BBC produced content as is obtained from the independent sector. This means that for the first time we will make our entire offering available on our broadband and on-demand services.
- 6.2.2 It appears to us that the strategic partnership is a blueprint for how public service broadcasters other than the BBC can utilise the licence fee for the benefit of their users. It sustains public service broadcasting outside of the BBC without compromising the BBC's independence or its duty towards licence fee payers.

## **7. The viability of our existing funding model**

### **7.1 Grant in Aid**

We are uniquely funded and in 2007 will have turnover of over £100m. The bulk of activity is funded through grant in aid from DCMS. 2007 will see S4C receiving £94.395m to fund our public service activities, we will receive a further £22.9m of content from BBC Wales and a further £7.9m from other sources. Our grant in aid increases by RPI in each calendar year. As the bulk of funding is derived from grant in aid and the licence fee, any future threats are likely to arise from Government Policy (be that in respect of treasury policy or primary legislation).

### **7.2 Commercial revenue**

7.2.1 Revenue from advertising on S4C analogue has been in decline for the past 7 years. We believe that we have weathered the steepest decline in terms of profit. In Wales, 80% of households are already digital, compared with 73% in the rest of the UK. This well advanced multi platform environment and the success of our Creative Strategy has, during 2006, seen our share of all broadcast stabilising.<sup>3</sup>

7.2.2 Current predictions show that as the Channel 4 schedule becomes less important and our main channel becomes S4C digidol the decline in the national advertising market will to some extent be balanced by growth in the regional market. Projections to 2010 do show our advertising revenue halved but potential cost savings post 2008 should see a similar income line from advertising sales in 2010 to that of 2007. By switchover programme sales will not be a significant element of our turnover.

7.2.3 In 2005 we sold our share in the multiplex operator SDN to ITV. We have invested the funds to produce a dividend line to assist in funding our public service and ancillary activities (which include the technical cost of the non public service channel S4C2 or any new channel to be carried on that capacity).

### **7.3 Internal re organisation**

We are undertaking a reform of internal structures which is designed to position S4C as a viable public service provider. The changes have permeated throughout the company to create a more dynamic, streamlined but flexible company equipped to face the challenges of the future. This has included outsourcing commercial activities and internal production activity. The commissioning department has been restructured to help us to take forward a more collaborative relationship with external producers. The decreased administration on S4C which arises from our Creative Strategy and the changes to the industry will enable us to make further cost reductions coupled with a fall in staffing levels over the next few years. Our overheads are forecast at, 4.3% for 2007. Significantly lower than any other public broadcaster.

### **7.4 Funding going forward**

7.4.1 We are confident that current funding levels (plus RPI) will enable us to deliver our proposed strategy, including the new children's channel and extended platform policy. We believe that this will be achieved in the main through our Creative Excellence Strategy, efficiency savings, the internal reorganisation and, the increased value of the BBC contribution.

7.4.2 However, the costs of digital remain unknown. Our services will be carried on one of the BBC's public services multiplexes and we are discussing the likely proportion of cost which we might be expected to carry based on the cost of building the terrestrial network. In order to properly plan for the future and to make policy decisions we need these costs to be quantified. Once quantified we believe a policy decision must be taken by the government and the BBC as to whether or not the costs will be funded by the BBC or through other means.

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<sup>3</sup> 2006 saw a year-on-year decrease of 0.1% for all hours.

## **Note**

**About S4C:** Like the BBC, S4C is a public broadcasting authority, unlike the BBC it does not have a charter but was set-up as a statutory corporation and is regulated by the Broadcasting Act 1990 and the Communications Act 2003. It is regulated by Ofcom and the S4C Authority. The S4C Authority is appointed by the Secretary of State for Culture Media and Sport and has up to 9 members (including a Chair).

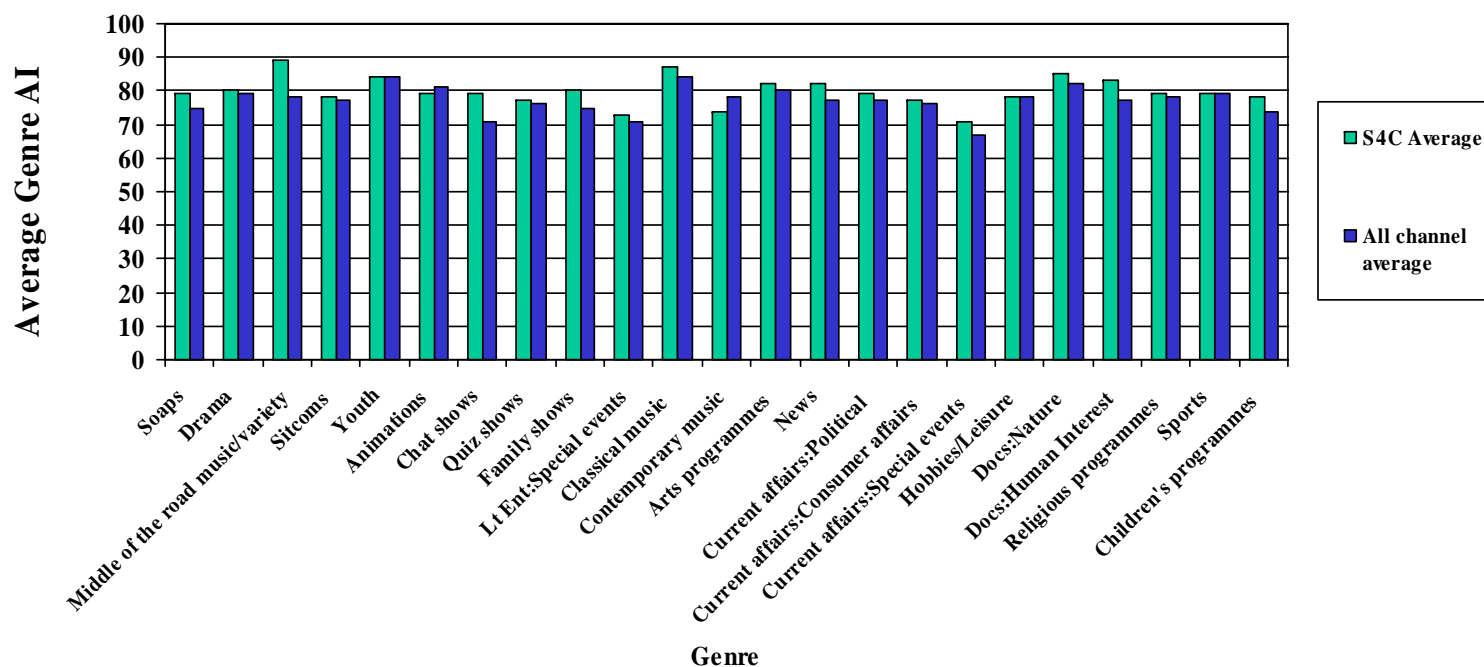
The Authority has recently adopted a new *modus operandi* which reflects the principles of good governance and best practice in light of the Government's White Paper on the future of the BBC. The new structure is designed to increase governance, accountability and transparency by adopting greater separation with a clearer division of responsibility between the Authority and the executive. There will be a new board of Executive Directors with at least one non-executive member. The Authority reports annually to parliament on its use of public funds and delivery of the public service remit.

**Re Data:** In considering this data it should be noted that between 1 November 2005 and 22 January 2006 an incorrect channel identity was provided to S4C by BARB. This led to an underestimation of S4C data of approx 6% during peak and 3% across all hours.

**Re Contact Details:** For further details please contact S4C's Director of Corporate and Commercial Policy – [nerys.hopkins@s4c.co.uk](mailto:nerys.hopkins@s4c.co.uk)

# Appendix 1

## S4C's AI average within genres compared to All Channel average during 2006\*



\* 2006 is currently based on 11 out of 12 waves of data

Base: Welsh speakers

Source : Ipsos Mori