



Introduction

S4C welcomes the opportunity to respond to Ofcom's Review of public service broadcasting published on 15th December 2014. As background, we are also submitting a copy of *Dyfodol Teledu Cymraeg / The Future of Welsh Language Television*, a paper we published in May 2014.

S4C is the only Welsh language television channel in the world and alongside the BBC, ITV, Channel 4 and Five, it is one of the five public service broadcasters in the UK with a duty to fulfil programme and service requirements, set out, in the case of S4C, in statute and where relevant, by agreement with Ofcom. The S4C Authority has a duty to ensure that the S4C service provides a broad range of high-quality and diverse programming, providing information, education and entertainment, available wholly or mainly for reception by members of the public in Wales.

As a PSB serving the whole of Wales, S4C's service aims to fully reflect the life of the nation and its communities. S4C's aim is to deliver content and media services in the Welsh language that provide entertainment, information and inspiration, that place S4C at the centre of the everyday lives of the people of Wales and make a progressive and key contribution to Wales and the Welsh language. Viewers expect S4C to provide a comprehensive public service, offering the full range of programme genres, including news and current affairs, documentaries, drama, entertainment, sport, education and children's programmes.

Since Ofcom's Second PSB Review took place in 2008, significant changes have occurred to S4C's funding arrangements. Around 90% of S4C's funding now comes from the licence fee, with approximately 8% coming from the UK Government. A new relationship between the S4C Authority and the BBC Trust is now in place. The Operating Agreement that enshrines the provisions of this new and unique relationship ensures S4C's operational and editorial independence whilst at the same time ensuring appropriate accountability to the BBC Trust for use of Licence Fee money.

Question 1: Do you agree with our assessment of the context in which the PSB system operates, and how the trends identified might affect the PSB system? In particular, do you agree with our analysis of the independent production sector?

Yes, we broadly agree. S4C is a PSB established, by statute, specifically to serve the Welsh-speaking community. It serves this particular audience both within Wales and, nowadays, across the UK. As the only Welsh-language television service in the world, S4C is unique, and is the UK's most clear-cut example of public service broadcasting: its services would not be sustainable without public intervention.

S4C launched as the Welsh fourth channel in 1982, however, as the Ofcom review paper notes, since digital switchover and with the development of IPTV and online television services, audiences now have a choice of hundreds of channels across different platforms. S4C remains the only Welsh-language television service, but must increasingly offer its content and services across all platforms in order to deliver for its audiences.

S4C has faced, and successfully addressed, significant challenges over the past few years. These include a substantial funding reduction, offering digital content, audience migration both in terms of geography and to new platforms and the related challenges of engaging with young people as their viewing habits change. Challenges still lie ahead, however we accept these and look forward to continuing to address them to deliver high-quality Welsh language content for our audience.

Working in Partnership with the Independent Production Sector to Create Economic Impact

The Welsh Government commissioned Hargreaves Review of Creative Industries in Wales (March 2010) recognized that **“without S4C, Wales may well not have any independent television companies at all.”** As a publisher-broadcaster, most of the channel’s content budget is spent on commissioning content from independent companies in Wales. S4C’s commissioning model has resulted in a strong, innovative, independent production sector, which has had a significant impact on the Welsh economy – including bringing in direct investment from beyond Wales. S4C has also invested in skills development by supporting Creative Skillset Cymru and Cyfle, which facilitate and provide high-level training for the creative industries in Wales.

The Welsh independent production sector has grown and developed alongside S4C. The independent companies, many of which have a significant presence in communities across Wales, offer world-class content which is highly valued by S4C’s audiences. Broadcast’s Indie Survey 2014 placed Boom Pictures, Tinopolis and Rondo Media in its top 45 UK independent companies. Tinopolis and Boom Pictures also featured in the Broadcast list of the top 10 UK’s owner/consolidator companies.

Like S4C, the independent companies have a significant impact on the economy. Analysis conducted for S4C (Arad Consulting, 2013) demonstrated that:

- **S4C’s investment of £63.7m in the creative industries in Wales in 2012 was responsible for** creating additional expenditure of £60.5m in the Welsh economy and **total economic impact on the creative industries in Wales of £124.3m;** and
- **every pound invested by S4C in the creative industries in Wales is worth almost £2** (£1.95) to the Welsh economy.

As S4C invests in and commissions content from companies across Wales, the economic impact and value of S4C is spread within communities in north, west and south east Wales. Major companies such as Rondo, Cwmni Da and Antena in Caernarfon, Tinopolis in Llanelli, Boom in Cardiff, and Telesgôp in Swansea all have a substantial effect on their local economies and contribute to a highly-skilled workforce in their respective areas – and beyond, as productions travel the country to film content that reflects Wales

Some 50 companies produced programmes for S4C in 2014. Combined, these create a diverse and vibrant supply chain that provides a substantial cultural, social and economic impact for Wales. **Only S4C commissions content from across Wales like this, enabling the companies to thrive, as we bring content that is relevant to Wales to our audience.**

The continued existence of a healthy supply chain is essential to delivering quality content, which delivers value for money, to the widest possible audience. It must evolve as the TV and content landscape continues to evolve. In addition to supplying S4C with content, these independent companies also produce content for other broadcasters outside Wales, again, adding to their economic impact on Wales and their reach.

Beyond Wales

The challenge for S4C’s suppliers to capitalise on international sales opportunities is however greater than in other parts of the UK, as content produced for a Welsh language

broadcaster can be more difficult to sell in overseas markets. This is beginning to change however, with indications of global interest growing: S4C's commission **Y Gwyll / Hinterland** has sold to over 25 territories from Japan to Germany, to New Zealand and Iceland. Netflix has acquired the rights for North America and Scandinavia and the Welsh version of the series was recently broadcast in Belgium and France.

In addition, several international co-productions have been brokered by S4C production companies, with Rondo Media and Awen Media both co-producing factual programming with South Korean broadcaster JTVC in 2014. There are also instances of formats being monetised: Cwmni Da's popular farming challenge series **Fferm Ffactor** is proving popular on the international market including in Sweden, where the series is currently being aired on TV4, the largest commercial channel.

To assist international opportunities, S4C supports Kick Start - an initiative offering practical and financial support to Welsh independent production companies aiming to secure international contracts and source opportunities for factual programming. Kick Start provides practical and financial assistance to Welsh production companies in order to maximise their opportunities at major international markets, such as MIPCOM, MIPTV and RealScreen. It is delivered and managed by Rights TV, and includes financial investment from S4C Commercial, The Welsh Government and Creative Skillset Cymru's Skills for the Digital Economy programme.

Both the UK and the Welsh Governments have in recent years focused on the creative industries as key drivers for economic growth. The existence and scale of the industry in Wales has been identified by the Welsh Government as the cornerstone of its success in attracting inward investment and productions such as *Da Vinci's Demons* into Wales. We're aware of the growth in the TV industry at a UK level over the past decade, and S4C's suppliers in the Welsh independent sector have been crucial to this success.

S4C and the sector in Wales have worked together to deliver substantial savings whilst continuing to commission and produce high-quality programmes. To date, we have managed to deliver this process whilst continuing to have a significant economic impact: this would be substantially affected by any additional funding reduction. These considerations regarding the continued health of the sector are discussed in our response to question 6 below.

Question 2: Have we identified the key differences in Northern Ireland, Scotland and Wales?

The nature of broadcasting in Wales, as suggested in the Ofcom analysis, is different to the rest of the UK.

Alongside BBC Cymru Wales and ITV Cymru Wales, S4C has an important role in ensuring that audiences in Wales have plurality from three different broadcasters. S4C fulfils a unique and crucial role in providing a dedicated Welsh language service in a country where ca 20% of the population speaks Welsh, although S4C's accessible coverage of the various aspects of Welsh life also attracts significant numbers of non-Welsh speakers to the channel.

Audience and Language

By nature, S4C has a varied audience to serve in terms of need and expectation. Our audience is as diverse as the population of Wales, and has different dimensions including language use and fluency, culture, age and geography. The channel is highly appreciated for portraying the whole of Wales, both urban and rural, as well as its cultural and sporting events.

The Welsh language must be a key consideration when looking at PSB in Wales.

As the only Welsh television channel, S4C plays an integral and significant role in making the Welsh language available, on multiple platforms – including digital - every day. Facilitating and normalising its use across a range of services and media is key to the future of the language, particularly with other more dominant languages becoming so prevalent on social media. We do so in an inclusive and accessible manner, delivering for all parts of our audience, no matter how fluent they are. Media Plurality and choice are a fundamental tenet of any democratic society. The Welsh language as the native language with the most speakers in the UK, and representing 20% of the population of Wales, deserves continued investment in Welsh language television to support and preserve this plurality.

Plurality

Against this multi-media backdrop, we must at the same time ensure plurality in Wales. At a time when it is being argued that not enough Wales-based choice is offered to them, Welsh audiences need content that reflects their nation in all its diversity. A separate debate is currently underway as to the number of English language programmes made in Wales that reflect the nation on screen (as opposed to Wales-made content for network television). Welsh audiences need content in both languages, but whilst there has been a decrease in programming produced and commissioned in English for Welsh audiences, this should not be conflated with the issue of Welsh language broadcasting nor with its funding.

S4C exists to provide the Welsh-speaking viewer - at home and on the move -with the only available stream of Welsh-language audio-visual content within a challenging media environment which now offers viewers hundreds of English-language channel options and digital content. The need to fulfil this function effectively requires unique funding measures, such as have been provided since its inception, unrelated to other national needs. Within this wider context and landscape, **Welsh language broadcasting that is operationally and editorially independent has a more important role than ever.**

Partnerships

Partnerships are central to S4C. In the current climate they allow us to make the best use of our more limited resources to deliver the best content, services and value possible for our audience. S4C and our partners are benefiting from working closely and collaborating as opposed to working in isolation. This helps enhance cultural, social, linguistic and economic impact.

S4C has formed strong and creative partnerships with institutions, organisations, communities and individuals across Wales – and beyond, with the aim of supporting our innovative content and reflecting the best of Wales' diverse lives and stories on screen. We now have formal partnership arrangements with a number of other leading organisations – including the Arts Council of Wales, Yr Urdd, Into Film and Theatr Genedlaethol Cymru. We are also working with BBC Radio Cymru to deliver Welsh language content for the audience.

The past eighteen months have seen co-operation across a range of programmes, including **Y Gwyll / Hinterland** (Royal Welsh College of Music and Drama, University of Aberystwyth, Visit Wales and Discover Ceredigion) and with Literature Wales for the Dinefwr Literature Festival. Our projects for young people – **DymaFi**, with the Children's Commissioner for Wales, yr Urdd, Cwmni Da, and the Young Farmers' Club, and **Hacio'n Holi**, with ITV Cymru Wales, the National Assembly for Wales and a number of schools across Wales also provide value and opportunities for our audience and openings for new voices to engage in Welsh.

Our value, our impact and our contribution to the nation represent much more than viewing figures alone.

Relationship with the BBC

S4C has a close working relationship with the BBC through the Operating Agreement and the Strategic Partnership. The Operating Agreement between the S4C Authority and the BBC Trust sets out the financial contribution that comes from the Licence Fee through the Trust until 2016/17. In addition, the agreement notes the accountability arrangements for Licence Fee spend. The agreement also establishes a Joint Partnership Board with a view to promoting strategic co-operation between S4C and the BBC.

The Strategic Partnership between the BBC and S4C, which was renewed in November 2012, relates to the BBC's statutory programme provision to S4C – a minimum of ten hours a week, free of charge - and sets out the financial value of the contribution, which is £19.4 million for the years 2013/14, 2014/15, 2015/16 and 2016/17. It is also worth noting that the partnership is wider than funding alone, covering joint planning in relation to the reasonable needs of the S4C Authority.

With the majority of S4C's income now coming from the licence fee, the next BBC Charter - and the process of negotiating it – will now have significant relevance to S4C. There will be a need to ensure that S4C's voice, and that of Wales, are clearly heard within the process.

Question 3: Do you agree with our assessment that the PSB system remains strong overall?

We agree with the assessment that the PSB system remains important, although it might be argued that this is despite, rather than because, of the changes that have taken place over the past five years in particular. Many of the changes have had particular implications for Wales; not least given the unique linguistic context of the nation and the particular need to maintain a strong and plural media that reflects this. Any further changes will risk the finely-balanced plurality that is currently in place.

Some 80% of S4C's budget is spent directly on commissioning content, the vast majority of which is spent with independent production sector. S4C also commissions programmes – including current affairs and rural content - from ITV Cymru Wales, and this contributes greatly to plurality in Wales. Under the terms of the Strategic Partnership with the BBC referred to above, S4C also receive its Newyddion (news) service, the long-running TV-drama Pobol y Cwm and some sport and current affairs output from BBC Cymru Wales. We feel that this commissioning structure as well as our duality of funding (with a proportion coming from the UK Government) stimulates the independent sector and contributes significantly to the PSB system in Wales.

We would also concur strongly with Ofcom's assessment that audience migration and the need for PSBs to make their content available on an ever-increasing range of platforms, in order to fulfil audience needs and behaviour, has increased platform and distribution costs, which in turn has put pressure on content budgets. Whilst this has affected all broadcasters, it has perhaps affected the PSBs more acutely.

Question 4: Given the resources available, to what extent is the system meeting the needs of as wide a range of audiences as practicable?

Question 5: Given the resources available, does the PSB system deliver the right balance of spend and output on programming specifically for audiences in Wales, Scotland and Northern Ireland and programmes reflecting those nations to a UK-wide audience?

Approximately 90% of S4C's funding now comes from the licence fee, 2% from commercial income and approximately 8% from DCMS. This income is mainly spent in Wales on delivering Welsh-language programmes and content. In terms of output, **S4C broadcast 2,472 hours of original programming in 2013/14. This programming and the valuable service it represents for audiences in Wales would not exist were it not for S4C.**

With technological advances and with multi-platform distribution – from Clic, Freeview, Sky and Virgin Media to YouView, and the BBC iPlayer, our content is being consumed and enjoyed by an increasingly technologically sophisticated audience. Clic and our growing range of apps enable the viewers to connect with S4C in new and innovative ways, at a time of their choosing. We saw a further increase in online viewing sessions in 2014 - up to almost 4.5 million (2013: 4m, 2012: 2.8m).

But these same tools have also led to far more consumer choice than ever before. In a multi-platform, digital world, S4C with its one linear channel, must offer the breadth of public service content that is available in English on BBCs One, Two, Three and Four, CBeebies, CBBC, ITV, Channel Four and Five - without mentioning the hundreds of commercial broadcasters that now also exist. S4C must, and does, offer content that educates, informs and entertains, for people of all ages.

Whilst we are endeavouring to ensure our content is available across the widest range of platforms possible, in line with other public service broadcasters, S4C is the only organisation amongst its peers to broadcast only in SD. With the reductions to our funding since 2010, difficult decisions have had to be taken - including the closure of our Freeview HD service, Clirlun, in December 2012. Our ambition is to relaunch an HD service to a wide audience by 2016, but this has to be subject to securing the budget to do so.

Audiences in Wales must not be disadvantaged or left behind: they must be able to enjoy Welsh language content as easily as they enjoy English content, and with the same up-to-date technology. Ensuring ease of access of Welsh language content is also intrinsic to the long-term future of the language. Partnership developments, such as the one with the BBC iPlayer, which has seen S4C content available to watch on a wide range of devices through a dedicated S4C iPlayer channel since the end of 2014, are paramount in achieving this new universality of service.

In considering the spend and output of programming specifically for Wales, Scotland and Northern Ireland, S4C believes that it is important to ensure that any such assessment is based on the specific expectations of the audiences and also the linguistic composition of each nation. Any such objective assessment should also take into consideration the importance of ensuring plurality of PSB services within the nations and, put simply, should not pit the requirements of one particular service against those of other services.

In terms of reflecting the nation: **96% of our Welsh-speaking and 92% of non-Welsh speakers feel that S4C is "relevant to the identity of Wales and its people"** whilst 84% of Welsh speaking viewers and 86% of Non-Welsh speakers feel that S4C "is a channel that shows what it's like to live in Wales. This is far above any other channels. (SPA, Channel Appreciation Tracker, November & December 2014).

Question 6: Is declining investment affecting the quality of PSB and is it a cause for concern?

S4C has faced a real-terms funding reduction of 36% since 2010. Despite an increase in the number of hours the channel broadcasts, in cash terms, the content budget is now at its lowest level since 1996 when the service was analogue only and carried some Channel 4 programming.

As mentioned above, funding reductions have led to some challenging decisions for S4C. **The aim has been to deliver savings in a way that has had the least effect possible on the content that the audience sees, as well as ensuring a sustainable supply chain in Wales. We are confident that our strategy has enabled us to deliver this.** The reduction in funding has been managed through a combination of internal efficiencies (including losing ca 25% of S4C's workforce); closing our HD service; and reducing our content budget through a combination of schedule changes and reducing our cost per hour. **The cost per hour of all S4C's transmitted hours has reduced year on year from £16.4k in 2009 to £10.8k in 2013/14; the cost per hour of S4C's commissioned content has reduced year on year from £52.7k in 2009 to £31.1k in 2013/14.**

There is no doubt that these budget reductions have resulted in a difficult period for the independent production sector in Wales. The scope for S4C to make further efficiencies is very limited and the challenge is to deal with the increased costs of being available on more platforms, unavoidable inflationary pressures and investment in a wider digital offering to meet audience expectations, whilst our income from the licence fee is set to reduce until 2016/17. We await confirmation after the general election of the DCMS contribution for 2016/17.

S4C has risen to the challenges, however any further reduction in funding would be likely to affect the range and quality of our content and also to have a negative impact on the independent production sector in Wales. Security is needed to ensure that long-term commissioning can continue.

Whilst some PSBs are able to benefit from the recovering TV advertising market and capitalise on new online advertising opportunities, advertising income only accounts for a small percentage – ca 1% - of S4C's turnover and any improvement in advertising opportunities does not compensate for the reduction in S4C's public and licence fee funding.

There are also considerations arising from S4C being a PSB funded predominantly from the licence fee and public monies which inhibit the extent of our activities for raising commercial income. For example, we decided to remove advertising from our children's service **Cyw** due to audience reaction and their expectations about the nature of S4C's children's service. In addition, a decision was made that the public service and audience benefits of making S4C content more widely available through the iPlayer outweighed the inability to carry advertisements, sponsorship and product placement on the iPlayer.

Question 8: To what extent do you agree with our assessment of the degree to which the non-PSB services play a role in helping to deliver the public service objectives? In doing so please set out your views on the delivery by the PSB portfolio channels, other non-PSB channels, on-demand and internet services and also radio services separately?

S4C exists to provide a television service in the Welsh language. No other PSB or non-PSB channel fulfils that purpose, therefore S4C's role in delivering this public service objective is vital. 97% of our Welsh speaking viewers and 90% of our Non-Welsh speakers believe that "S4C is the only Welsh language channel available and [that] it should continue" (SPA, Channel Appreciation Tracker, November & December 2014).

In terms of other public service objectives, the table at fig. 43 of Ofcom's review paper highlights the scarcity of multi-channel provision of children's content and drama. These are genres which are of a particular priority for S4C, and ones on which the non-PSB services may not place a particular focus. Indeed, it may be said that S4C is the

broadcaster (be that PSB or non-PSB) that produces the most drama and children's content specifically for audiences in Wales.

Children's Content: Although S4C is not mentioned in the context of children's programming in the review paper, the genre is a major service commitment for the channel (and one which does not, as a whole, contribute to audience measurement figures). S4C's children's services and programmes aim to provide children of all ages with a strong linguistic foundation based on programmes that will inspire and entertain. We offer comprehensive services for children and young people: the award-winning **Cyw** for younger viewers, **Stwnsh** for older children as well as programmes for teenagers.

In 2014, downloads of our children's and Cyw apps increased by 60% (from 129,845 to 207,375) whilst the Cyw service remains popular on TV, with **244,000** viewers a month watching the service (up from **221,000** in 2013). Thousands of children also enjoyed **Cyw** and **Stwnsh** events across Wales in 2014 – the Cyw Christmas shows alone were attended by over 10,000.

Dedicated children's services are vital - not only to S4C's future - but also to the cultural, social and linguistic future of Welsh communities and to the language itself. Projections from the last census suggest that more children and young people will be able to speak Welsh in the future. We will also see more mixed-language households, which will change the audience's viewing habits. This change in the linguistic make-up of Wales will lead to S4C playing a more important role than ever in terms of the Welsh language.

89% of our Welsh-speaking viewers feel that it 'is very important that a Welsh children's TV service like Cyw is available on S4C.' 87% of the non-Welsh speaking viewers who responded felt likewise. (SPA, Channel Appreciation Tracker, November & December 2014)

Supporting Welsh Learners

Dal Ati, S4C's new multi-platform Welsh learners' service launched in the autumn of 2014. Having consulted widely, learners told us that they wanted S4C to support them as they progressed with their learning – learning that would initially, have taken place with partner organisations. The strategy behind Dal Ati will steer our services and programmes for the immediate future with the aim of supporting a language continuum for intermediate and more advanced learners.

Our long-term learners' strategy will enable the changing audience to connect with S4C's core service and to improve their Welsh language skills within the broader cultural context of today's Wales.

Drama

Drama must remain a cornerstone of S4C's future content schedule. It is however, the most expensive programme genre. Reductions to S4C's income streams in recent years have led to a reduced provision and we have not been able to broadcast as much new drama as we would like. However, by reallocating resources, we are gradually increasing our provision of new drama series outside of soaps throughout the year, and encouraging new authors and voices that represent the wider, modern Wales.

We are pleased to be able to deliver on this ambition, by increasing our output of original drama (outside soaps) by ca 37% in the 2015/16 financial year.

Sport

Sport has an ability to draw in new viewers and users to Welsh language content and helps place S4C at the heart of an audience of fluent, less fluent, learners and non-Welsh speakers. Sports programming is amongst our most popular, delivering consistently strong reach and audiences.

The sports rights landscape has evolved dramatically over the past decade. Newer entrants to the market have led to increased competition for the rights, with the traditional PSBs – S4C included – often outbid.

Against this backdrop, S4C has sought to work creatively to continue to bring Welsh sports to the screen; from our popular U20s Six Nations coverage to local matches and games across Wales, and our cycling coverage, our audiences are continuing to enjoy sport in Welsh. Nonetheless, without reserved powers, Welsh language television sport coverage may well diminish. **Welsh language audiences have a right to be able to enjoy free-to-air sports coverage, and we will seek to work creatively, and in partnership, to ensure that this is achieved.**

Question 9: How likely are we to see steady evolution and have we identified all of the potential alternative scenarios and risks to the system?

As the only Welsh language channel, S4C is the UK's most clear-cut example of PSB. Its future is intrinsic to the long-term continuation of the PSB system and media plurality in Wales.

The current arrangements for PSB, in particular the unique relationship between the S4C Authority, the BBC Trust and DCMS have proved to work well since 2013, and have ensured a known level of funding for S4C as well as its independence and appropriate accountability to the BBC Trust for use of the Licence Fee. It is imperative that any consideration of the PSB system in future maintains such arrangements and guarantees, including the continuation of direct public investment in Welsh language broadcasting and S4C. Such arrangements will ensure S4C's ability to continue to provide high quality innovative services to its audience across a range of relevant platforms with certainty in terms of sufficient funding and independence.

Question 10: How might incentives to invest change over time?

Question 11: Have we identified all the relevant ways in which the PSB system might be maintained and strengthened?

S4C will need to take advantage of technology and platforms as they evolve to continue to offer our audience the widest range of content possible. Our audience needs and expects a comprehensive range of innovative programmes: we are committed to delivering this in future and to continuing to engage with our audience as it evolves over the next 10 and 20 years. But our services, our contribution to Welsh life – to the economy, to the language, to education and to sustaining our nation's diverse culture – can only be maintained with sufficient funding.

S4C's ability to invest in content has been reduced due to a combination of factors, including:

- funding reductions;
- the cost of making our content available on an ever-increasing range of platforms;
- the need for investment in digital content and services over and above our on-screen content, in line with audience expectations; and
- inflationary increases in some areas of cost which cannot be avoided.

As referred to in questions 4 and 5, we have also identified the need to find a budget to re-launch S4C on HD – Ofcom’s review paper highlights HD as being one contributing factor to the high appreciation by audiences of PSB services.

As mentioned in response to Question 6 above, our ability to generate any material additional income from new commercial revenue streams is also limited.

Ensuring sufficient funding for S4C – in terms of ascertaining what is sufficient and making arrangements for the provision of such funding remains a duty of the Secretary of State (in accordance with Section 31 of the Public Bodies Act 2011). We welcome the consideration by Ofcom of potential ways to increase funding of the PSB system and, of those identified in paragraph 6.62 of the review paper, we would see the following options as being most pertinent to S4C:

- **Tax breaks:** It has become increasingly difficult for us to invest in commissioning original children’s content and we welcomed the UK Government’s announcement in autumn 2014 on extending the tax break for children’s television beyond animation. We have already seen the importance of tax breaks for the animation projects that we invest in and would anticipate the same becoming the norm for other forms of children’s content.

Due to the size of S4C’s budgets, our producers have not generally been able to utilise the tax break for high-end television, which is only available where the cost per hour is at least £1m. At a time of reducing content budgets, we would question whether this threshold remains appropriate and would welcome consideration being given to significantly reducing the threshold, in order to stimulate more investment in original UK content;

- **AIP charges:** Any additional charges for spectrum, assuming they would be passed on to us from our multiplex operator, would be likely to impact significantly on our investment in programmes and content. We believe that the focus of the PSB system should be to maximise the investment in original content and we do not believe there will have been any material change to the conditions under which the PSBs operate by 2020, which would justify the introduction of AIP after that time.

As well as prejudicing the level of investment in content, such a move would be unlikely to fulfil one of the stated aims of imposing such a charge, namely to incentivise more efficient use of spectrum. Broadcasters (to whom the charges would presumably be passed on) are not in a position to manage spectrum use. Multiplex operators, on the other hand, already have a commercial incentive to maximise efficiency, as they can raise additional income if they release sufficient spectrum to accommodate additional channels.

We believe therefore that there is a strong case for a longer-term exemption for PSBs from AIP charges;

- **Balance of payments between PSBs and TV platforms:** We would favour strongly the removal of platform charges from PSBs to pay-TV operators (i.e. charges to secure access to platforms and cover specific technical costs). PSB channels are an essential part of the offering of pay-TV operators – it is difficult to envisage the current level of subscription income being maintained without customers being able to receive PSB channels. We believe there is a need to redress the imbalance in the current system, which enables platform owners to charge platform charges to PSBs whilst also generating income from the free content provided by PSBs.

Ofcom notes the concern of some that money freed up for PSBs by changing the current system might be paid as a return to shareholders, rather than reinvested

in PSB content. In the case of S4C, which is a statutory corporation without any shareholders, we would ensure that any savings realised from the lifting of platform charges would be used to maximise our investment in content.

Question 12: Does universal availability and the easy discoverability of PSB remain important and how might it be secured in future?

The principles of universal availability and the easy discoverability of PSB remain important and should, we believe, be extended to a non-linear environment in line with changes in audience behaviour, but we recognise that this is less straightforward than under the traditional TV model. We would offer the following comments:

- Defining universality is difficult as an increasing range of platforms emerge. A continuing assessment of platforms may be needed to identify which ones are sufficiently widely used to justify universality;
- Clarity would also be needed on which platforms or services fall within the scope of Ofcom's regulatory powers and those powers may need updating. The challenges of regulating the on-line environment are already recognised, but the regulation of on-demand platforms associated with satellite and DTT platforms may be more straightforward in the meantime;
- It would be necessary to work through how to apply the principles of appropriate prominence in the context of new ways of leading audiences to content. For example, where access is through a service provider's own app, we would expect a PSB's app to be available on the first page of the device; where devices generate recommendations, they should not discriminate in favour of the platform owner's own content.

S4C's situation is unique, as it is available across the UK on all platforms other than Freeview, but in practice S4C has only been given channel prominence in Wales. The viewing to S4C content outside of Wales has increased significantly as S4C has become available on more platforms outside Wales and is coming to represent an increasingly large proportion of all S4C viewing (37% most recently). This is not entirely surprising, as many Welsh people move to other parts of the UK for higher education or work. We know that many Welsh speakers bringing up families outside Wales are keen for their children to learn Welsh and greatly value S4C's children's services for this purpose.

It is imperative for S4C to maintain a high level of EPG prominence within Wales on all applicable platforms. Given our availability throughout the UK, we feel it would be appropriate for S4C to be granted a level of prominence outside Wales, as S4C fulfils a PSB function valued by audiences across the UK.

Question 13: Should we explore the possibility of giving greater flexibility to PSB institutions in how they deliver public service content, including examining the scope (in some or all cases) for regulating by institution, not by channel?

Although the media landscape has changed significantly since S4C was launched, S4C's remit remains rooted in the more static, linear broadcast landscape and elements of the act by which the channel was established are now out-dated. It is illogical today to conceive that the S4C services should be "television programme services" only available for use "wholly or mainly by members of the public in Wales" as laid out in section 204 of the Communications Act 2003.

We currently seek to serve the widest possible audience by offering access services including optional English language subtitling and, for coverage of some sports and other

events, an optional English language audio track. Our services are made available to audiences on Freeview across Wales and also on the Sky, Virgin Media, Freesat, You View and You Tube services across the UK, but only in standard definition.

S4C's on-line service Clic is available throughout the UK. S4C content has also been available on the BBC iPlayer since December 2014, and, where rights permit, S4C's content is available on a worldwide basis. **One of our aims therefore is not only to be available to everybody in Wales - across multiple platforms - but also to be available for the Welsh diaspora across the UK and where possible on a worldwide basis across as many platforms as possible.** This pushes the 'geographical' boundaries laid out by the Communications Act 2003 as well as the more traditional television only aspects of the current remit.

Our remit must be fit for the digital, creative, future, and we look forward to working with government and stakeholders to ensure that this is the case.

Question 14: Do the current interventions in relation to the independent production sector need to change in light of industry developments?

We continually assess the needs of our audiences and aim to meet those where possible. For example, there is demand to open up our archive; to make programmes available to the Welsh diaspora overseas; and to provide content for the purposes of education and Welsh language learning. The challenge for us as a broadcaster is to secure the necessary package of rights, both from producers and other contributors or rights holders.

For example, paragraph 2.60 of the review paper refers to the inability of PSBs generally to give access to their back-catalogue of programming, unlike some commercial services. It is certainly an aspiration of ours to provide access to our archive. Under the current rights framework, programme fees are structured on the basis of the broadcaster acquiring a package of primary rights, including broadcast and on-demand windows. Additional rights would need to be negotiated and/or paid for, from production companies, talent unions, music collection societies and owners of third party materials, in order to make content available beyond this window. There may also be significant costs involved in digitising old archive material and (for paid-for archive) providing a transactional customer interface. We would be happy to contribute to any wider debate about providing greater access to broadcasters' archive, to seek to satisfy audiences' appetite to view content at times and in a form that suits them.

Similarly, we would wish to ensure that the various rights frameworks within which we operate offer sufficient flexibility to meet the other aims set out above and to offer new initiatives as audience needs evolve over time.

Question 15: Have we identified the right options when considering potential new sources of funding, are there other sources of funding which should be considered, and which are most preferable?

As mentioned in previous questions, S4C has faced significant challenges over the past few years. These include a substantial funding reduction, the need to offer digital content, audience migration to new platforms, and the associated challenges of engaging with young people as their viewing habits change. We have faced these challenges: **working in partnership with others – with the independent production sector in Wales, with the BBC and with other national institutions - we have succeeded in protecting and delivering a high-quality Welsh language television service for our audiences.**

Overall therefore, we would maintain that S4C is in a good place at the moment. **We are working hard to ensure that the current financial arrangements and the**

new partnership with the BBC are working for the benefit of the audience. S4C's editorial and operational independence as guaranteed in the Operating Agreement are both important factors in underpinning this. We welcome the Culture, Media and Sport Select Committee's acknowledgment that 'it will be important that S4C remains independent operationally and managerially over its affairs and editorially over its content ('Future of the BBC', 26th February, 2015).

Mindful of its responsibilities as a PSB in Wales, **S4C is looking to the future, and is concentrating on creating world-class content for Welsh audiences, whilst maximising our economic and linguistic impact.** S4C is confident, and continues to seek opportunities to ensure our content is available on new platforms as well as on television – as the audience increasingly expects.

In 2018, S4C will become the first Welsh broadcaster to move its headquarters outside Cardiff. Working in partnership with the University of Wales Trinity St David, the channel will become the anchor tenant at a new centre in Carmarthen. **The economic and linguistic impact on the area is expected to be significant.** More than 25 other organisations and companies have already expressed an interest in co-locating, and the aim for S4C is to be the catalyst for creating a vibrant centre of excellence and innovation for the creative industries in West Wales, and place S4C closer to its audience in a traditionally strong Welsh-speaking community. Our transmission services and some other functions and roles will co-locate with BBC Cymru Wales in its new headquarters in central Cardiff. Both aspects of the relocation will deliver efficiency savings for S4C.

S4C values good relationships with both the Westminster and Welsh Governments and appreciates the interest shown in both its services and its contribution to Welsh life and the Welsh economy. Wherever the formal responsibility for S4C lies within government, two over-riding requirements will need to be considered to ensure S4C can continue to deliver a high quality service which meets the needs of the people of Wales. The first is sufficient funding and the second is editorial and operational independence.

The funding decisions of the next Charter period will look at 2017 and ahead – and must not be made with a retrospective glance at the economic situation of 2010. They must also be taken in the context of the BBC and the licence fee, the product of which has increased to £3.7 billion per annum. This is funding for high-quality public service broadcasting, and the role of S4C as the only editorially, operationally and managerially independent Welsh language television service must be guaranteed from it.

The media landscape of the next 10 years and beyond will be challenging, but it may also offer new and exciting opportunities for all broadcasters. These could have far-reaching implications, not only for Wales, but on the future of the Welsh language itself. S4C stands ready to engage and to continue to deliver a wide-ranging, high-quality PSB service for its audiences, wherever they may be.

S4C, 26.2.2015.