



12th February 2018

Sir David Clementi
Chairman
BBC
Broadcasting House
London
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Dear David

S4C's response to the BBC's Age-related TV Licence Policy Consultation

S4C welcomes the opportunity to respond to the BBC's Age-related TV Licence Policy Consultation. As a close partner of the BBC and a Public Service Broadcaster ("PSB") dealing with similar challenges and opportunities, we appreciate more than many stakeholders the pressures and difficulties that challenging funding settlements can have on the public services that we provide to our audiences.

S4C and the BBC have developed a unique and close partnership that respects the independence of both broadcasters, whilst at the same time enabling collaboration across a range of areas. Since S4C's establishment in 1982, the BBC has provided some of S4C's most popular programmes, such as the Newyddion news provision, the long running soap opera Pobol y Cwm, coverage from the National Eisteddfod of Wales and various sporting events.

In 2017, S4C and the BBC brought together all elements of the partnership in a new agreement, the Partnership, Funding and Accountability Agreement. This agreement will lead all aspects of the partnership for the duration of the BBC's current Royal Charter until 2028.

The public funding of S4C is the responsibility of the Secretary of State for Digital, Culture, Media and Sport. The Public Bodies Act 2011¹ states that the Secretary of State shall secure that in each year S4C is paid an amount which s/he considers sufficient to cover the costs each year of providing and broadcasting and distributing S4C's public services.

Since 2013, the majority of S4C's public income has been provided from the Licence Fee, following agreement between the Government, the BBC and S4C, and in accordance with the Secretary of State's duties under the Public Bodies Act. In 2015, as part of the Charter Renewal process, Government, the BBC and S4C agreed the level of contribution from the Licence Fee that would be provided to S4C for the period until 2021/22, with the amounts to be provided from 2022/23 to 2027/28 to be determined following the completion of the review of S4C and consultation with the BBC and S4C. This was in the wider context of the totality of S4C's funding, which continues to include an element of grant-in-aid from DCMS.

The Review of S4C, undertaken by Eyrn Ogwen Williams, published in March 2018, recommended that the totality of S4C's public funding should be provided entirely through the Licence Fee from 2022/23 onwards, with all future funding decisions made as part of the Licence Fee funding settlement. The Government accepted this recommendation.

The BBC has stated that the potential cost of the current concession, put in place in 2000, would currently be approximately £745m per annum, and that this would equate to approximately 20% of the BBC's current spend on content and services for the audience.

¹ Section 31 of the Public Bodies Act amended the provisions of section 61 of the Broadcasting Act 1990.
<http://www.legislation.gov.uk/ukpga/2011/24/section/31>

S4C understands and has direct experience of the significant pressures that funding changes can place on the ability of a PSB to continue to deliver a wide ranging and high-quality service and respond to the audience's increasing expectations, and doing so in a market where competition from international content providers is increasing at a pace.

Since 2010, S4C's public income has been reduced significantly. We have dealt with a real-terms reduction in income of over 36% (which equates to a cash-terms reduction of 20%). Such a reduction inevitably challenged us to review all of our activities and cost base. S4C's workforce has reduced from 165 FTEs at the beginning of 2010 to 131 FTEs in 2017/18. We have stripped significant costs from our overheads, which remain at a very low level of 4.5% in 2017/18. In terms of scale and scope of the services we provide, we had to take difficult decisions, including the decision to cease broadcasting in HD on the Freeview platform, and despite prioritising S4C's investment in original content, the funding settlement has inevitably led to a reduction and a scaling-down of S4C's ambition in all genres including important areas such as childrens' and young people's programming, drama and events. Significantly, and regrettably, from the point of view of continuing to provide a consistently high-quality service in line with the audience's expectations, it has resulted in an increase in the use of archive and repeat programmes both in and out of peak hours.

Many broadcasters across Europe have been dealing with challenging financial settlements over the past decade, and the European Broadcasting Union ("EBU") has studied the impact of, and correlation between funding reductions and viewing figures on a number of public service broadcasters in Europe. The EBU's assessment has found that "significant, repeated cuts cannot be fully compensated by efficiency gains" that "a positive correlation between programming expenditures and TV audience trends" exists and that "under no circumstances can TV audience share increase when programming expenditures drop". Their research also notes an impact on the scale and scope of the services that can be provided by PSBs that are facing financial pressures and funding reductions². This is in line with our own experience.

S4C does not comment on matters of public policy that are the responsibility of elected representatives. However, following the introduction of the Digital Economy Act 2017, matters that have been considered by politicians and government since 2000 are now the responsibility of the BBC. The Act places a duty on the BBC, to decide upon and put in place arrangements for any age-related licence fee concessions. It would not be appropriate for S4C to comment upon the merits of the underlying statutory provisions; however, it is relevant for S4C to comment on matters that are the responsibility of the BBC.

The BBC now finds itself in the position of having to consider sensitive issues relating to the age-related Licence Fee concession and the need to ensure sufficient resources for the BBC to continue to provide a wide range of services to the population of the UK. S4C acknowledges the difficult decision for the BBC – either maintaining the concession and finding annual efficiencies and scope reductions of c. £750m within the BBC's services, or terminating or amending the concession and impacting upon a significant number of users of the BBC's services.

PSB services, such as the BBC's and S4C's, are used by a wide range of people – from pre-school children to elderly people, and each group expects the broadcasters to provide high quality services, including those tailored to their own particular preferences. The wide and universal nature of the public services provided has been reflected in the universal manner by which such services are funded – either by way of 'grant in aid' directly from Government or the Licence Fee.

The scale of resource generated by applying the licence fee more or less universally across the whole UK viewing population has enabled the provision of a rich, wide-ranging free-to-air range of services which are envied across the world. These services support a dynamic creative industry, producing indigenous UK content, increasingly from the whole of the UK, which is sold across the world, projecting a positive and enviable image

² Funding of Public Service Media, European Broadcasting Union, December 2018



of the UK and its constituent nations. These benefits derive directly from the scale of the funding mechanism and are threatened by any substantial change to it.

The key question is whether this range of activity within the BBC's public services can be sustained if the concession is continued in its current form.

This is not a question upon which S4C is in a position to advise definitively, but as recipients / commissioners of regular programming for S4C from BBC Cymru/Wales we do have direct experience of the costs and value of BBC productions in an important area of mainstream production which we believe to have wider relevance and we offer a view on that basis.

Together with an additional financial contribution that S4C makes for certain costs relating to the Pobol y Cwm soap opera, our assessment is that this programming, benchmarked against S4C's own commissions from the independent sector, does provide value for money, both in terms of absolute costs and in terms of the ability to attract audiences, and has done so very effectively for very many years. If the BBC's overall funding were to be reduced, we would be concerned that this centrally important element of the S4C service, together with other highly valued elements of programming provided by BBC Cymru/Wales might also be negatively affected in the future.

Extrapolating our experience across the whole range of the BBC's public services would suggest that it would be extremely difficult for the BBC to find savings of c. £750m without impacting upon the scale, scope and quality of programming and services that could be delivered. The EBU's research supports the view that efficiency gains alone would not be enough to avoid scale and scope reductions.

S4C believes that the PSB services funded by the Licence Fee make a uniquely valuable contribution to the cultural and social life of the UK and its constituent nations and regions.

We believe, if the age-related concession were to be continued in perpetuity, with no compensation from Government, that the impact on the scope and quality of the services provided by the BBC, and the UK PSB ecology more broadly, would be negative and far-reaching at a time when they must face dynamic competition from new, wholly commercial platforms and producers, for whom reflecting and supporting the diversity of British culture would not be important. The social values underpinned by the UK's uniquely strong tradition of public service broadcasting would be under threat if PSB services, which both provide what the market will not, and which seek to maintain a universal appeal, can no longer be maintained in strength.

Each of the options suggested in the consultation document has merits as a means by which the cost of the licence fee can be mitigated for those in greatest need, but we do not believe it appropriate for S4C to express an opinion as to whether, for example, need is better defined by age rather than means. These questions are matters of social rather than cultural policy. We believe, however, that the BBC has a fundamental responsibility to make the case for the continuation of proper funding of public service broadcasting and should make its present decision with this priority foremost in mind.

Yours sincerely,



HUW JONES
Chairman
S4C

