

**S4C Review:
A Welsh Language Television Service
Fit for the 21st Century?**

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Introduction

When S4C was set up twenty-two years ago, people understood what a television channel was. The Fourth Channel in Wales was the broadcasting solution to a particular combination of political and social issues. But the clear demand for a Welsh language service was conditioned by a much more general acceptance of what that sort of service should comprise. The nature of the service was of necessity limited to that which a linear, analogue medium could deliver.

Now, and more especially, when analogue television is switched off, the S4C Authority believes that the questions surrounding the nature of the public service that Welsh speakers should have the right to enjoy need to be addressed within the context of the digital, non-linear world. More than 60% of Welsh households already have access to multi-channel television. Expectations will have changed massively when all viewers have between thirty and five hundred English-language channels available to them and when television is accessible through many platforms, offering interactive experiences of all kinds. The other public service channels have needed either additional public funding or commercial restructuring to enable them to respond to these changes. Yet the service that S4C is able to deliver for Welsh-speakers has remained broadly the same and the funding regime allows no room for growth. Is this right?

How should S4C respond to the changes taking place in broadcasting? What exactly is the future of the language? Who will be speaking Welsh in ten years time? The Welsh Assembly Government has set ambitious targets aimed at increasing the number of Welsh speakers by 2011. How will their needs differ from those of Welsh-speakers in 1982? Can those needs realistically be accommodated on a single, traditional television channel? What are the alternatives? How much might they cost? Could S4C do more to help itself? Is its programme making methods efficient? Are there savings which could be made to allow more to be spent on programmes and other content? Are there opportunities to generate further commercial revenues not currently being taken up? Do we work sufficiently closely with potential partners? Does the service support Government policy towards the language and towards culture more generally? What more could it contribute? What other benefits come about, directly or indirectly, as a result of S4C's activities? Again, what more might we achieve?

For the past twenty-two years, S4C has been at the heart of the debate in Welsh-speaking communities about the future of the Welsh language and the institutional and cultural structures that have supported its growth in recent times. It must not become peripheral at a time when the communities that it serves are changing so quickly. S4C's catalytic effect on creative industries in Wales has made a significant contribution to economic development in different areas of the country. We want to contribute to the further growth of the creative sector and to Wales's broader cultural aspirations, both at home and abroad. We also want to make sure that we can continue to play a part in ensuring that Wales has a voice within the multiplicity of channels and delivery platforms now available.

This report describes the outcome of S4C's own process of internal interrogation and review. Our review has been conducted on the understanding that its conclusions will be taken into account in the independent review that the Secretary of State for Culture, Media and Sport has agreed should now take place. We now invite our viewers, our partners and all those who have an interest in broadcasting to contribute to that review and to help us build a television service fit for the 21st century.

Professor Elan Closs Stephens
Chair, S4C Authority
February 2004

Review Summary

- (i) S4C's decision to call for a review of its operations reflects the enormous shifts taking place within broadcasting and to the population it was established to serve. The broadcasting environment which S4C occupies today is very different to that which existed when it was launched as the first ever Welsh language television channel 22 years ago. S4C continues to be one of just four television services available on analogue transmitters in most of Wales. It continues to broadcast a service which comprises mainly Welsh language programmes during peak and the best of Channel 4's output at other times. But in more than half of all Welsh households S4C is now one of the more than two hundred channels available through digital television. S4C's plans for the future must ensure that the channel can compete successfully in this far more competitive broadcasting landscape. The key elements of S4C's vision for a modernised public service fit for the 21st Century are set out in this document. Along with S4C's own assessment of its activities and of the challenges it faces, these are intended to provide a start point for the external review process that has been agreed to by the Secretary of State.
- (ii) Analogue switch-off represents a challenge but also an important opportunity for S4C. If S4C is to seize that opportunity, there will need to be changes in the nature of the service that it delivers. It will need to keep up with the growing expectations of its viewers. It will need to find new ways to engage with those viewers. It will, for example, need to strengthen its programme line-up so that there are more high points to the service; it will need to maintain range and diversity if it is to fulfil its remit of providing a comprehensive public service to Welsh speakers; S4C will need to develop an interactive capacity and there will need to be a new deal for children's programmes in line with the growing expectations of children and their parents. Welsh language broadcasting will otherwise be seen as a poor relation. Broadcasting over the internet offers exciting opportunities to bring Welsh language content to the attention of a worldwide audience. As television based content becomes increasingly available on a range of new digital platforms, S4C bears an important responsibility to make sure that the Welsh language plays a prominent and vibrant rôle on those platforms.
- (iii) The changes taking place within the Welsh speaking population only serve to underline the continuing importance of the service S4C provides. There has been encouraging growth in the number of Welsh speakers. There are some encouraging signs that at least part of this growth should be sustainable. But the Welsh language tends to play a different rôle in the lives of the new generation of Welsh speaker than it does for the traditional Welsh communities that still constitute a significant part of S4C's audience. S4C must continue to be an important source of information and entertainment for that segment of the population for whom the language is an integral part of their every day lives. But S4C can also play an important rôle in reinforcing the position of the language in the lives of the new generation of Welsh speakers.

- (iv) As switch-off approaches, S4C will need to respond to this challenge without the support of the sustaining service that Channel 4's programmes have provided on analogue. The very real concern of the S4C Authority is that its ability to deliver a wide-ranging television service of consistently high quality is already being eroded by the limitations of an inflation-linked funding formula. There are also substantial technical costs associated with the roll-out of the digital network. The review concludes that S4C will not be able to seize the opportunity to deliver a comprehensive high quality service on digital platforms, offering a range of wider social benefits, on the basis of a funding formula designed to support a service that broadcasts for only five hours a day on analogue.
- (v) The review presents a range of evidence that suggests that S4C is making efficient use of the resources it currently has available. The amount that S4C spends on every hour of programming is significantly below that which is spent by its competitors. Expenditure on overheads compares favourably with industry benchmarks. The review also concludes that the £14 million in commercial turnover generated by S4C International is close to, or at, the maximum level that can be generated without incurring an unacceptable element of commercial risk.
- (vi) In pursuit of its vision of a modernised public service fit for the 21st Century, the review suggests that S4C's uniquely important relationship with the BBC should be reviewed, as part of the BBC's Charter Review that is now underway. It also highlights the importance of securing a readily accessible presence on all digital platforms and of meeting the costs of the roll-out of the digital terrestrial transmitter network whilst protecting S4C's programme budget.
- (vii) The final part of the Authority's review consists of an audit of the wider social benefits that are derived as a consequence of the programme service. These wider benefits are a direct consequence of S4C's programming decisions, which aim to ensure that the overall objective should be to deliver S4C as a public service. S4C's ability to deliver these wider benefits is intimately linked to its ability to deliver a service that is attractive and able to compete successfully in an increasingly competitive broadcasting environment. The earlier parts of the review set out the sort of changes the Authority believes will be necessary if S4C is to continue to operate successfully. S4C's ability to deliver the wider range of benefits associated with its vision for a modernised service will be dependent on S4C being able to deliver these changes by the time switch-off arrives.

Chapter 1: A Welsh Language Service for the 21st Century

At the RTS Cambridge Convention in September 2003, the Secretary of State for Culture, Media and Sport, Tessa Jowell, announced that it was now the Government's policy that analogue television will be switched off as soon as possible. The Government is hopeful that this can happen by 2010, or soon afterwards. A Digital Action Plan has been drawn up, whose objective is to describe the steps which need to be taken in order for switch-off to take place and to facilitate its achievement as soon as possible. Switch-off gives rise to a whole host of issues, technical and otherwise, for all the terrestrial broadcasters. For S4C, it offers the opportunity of creating a Welsh language television service fit for the 21st Century.

1.1 Analogue Switch-Off

1.1.1 Future-gazing to try and predict the winners and losers in the post switch-off age has generated reports, seminars and a good deal of lively debate. Rather than commission additional material, this review has drawn upon this existing work in seeking to identify the key features of the new broadcasting environment. Useful examples of possible scenarios were provided by the Future Reflections¹ conference in 2002. The Royal Television Society's Cambridge Convention 2003 offered a related set of possible outcomes. The essential features of the post switch-off age which emerge from these and other studies include the following:

- Every television set will offer a choice of at least 36 channels, with most of these being free-to-air.
- A large number of homes, possibly 40-50%, will choose to pay to receive an even wider choice.
- There will be a very small number of well-resourced general interest channels. The great majority of channels will offer 'niche' services.
- Viewers will expect to be able to access programmes catering for their interests whenever they want them. They will also desire regular appointments to view which provide social talking points.
- Widespread availability of Personal Video Recorders will reduce the importance of scheduling but increase the importance of marketing.
- Most broadcasters will offer a cluster of channels so as to give them the opportunity to reach as wide an audience as possible and, through cross-promotion, to maximise the possibilities of retaining viewers within the cluster.
- Interactivity, both during broadcasts and post transmission, via interactive digital television and comprehensive web-sites, will become a common feature of many programmes, creating an expectation of active viewer participation.

¹ *Future Reflections: Four Scenarios for Television in 2012* – Bournemouth Media School with research support from the Independent Television Commission and the British Screen Advisory Council

- Digital television, used interactively, will increasingly be used to deliver aspects of public services, including lifelong learning and democratic participation.
- Most people will continue to use television as one of their prime providers of entertainment and information, for many hours each week.
- People will live longer, but many will not be affluent, and older people will generally be more averse to adoption of new technology. Very substantial numbers of people – those who have grown up with television – will be dependent on television in a form not dissimilar to that in which it is currently provided, for the rest of their lives.

1.1.2 The environment in which S4C will function following switch-off will be dramatically different, therefore, to that which gave rise to Welsh language broadcasting as we know it today. The long-running public debate which led to the establishment of S4C in 1981, took place in the context of an analogue environment that had matured and was well understood. Television, as a widely available mass medium, was nearly thirty years old. In its two or three-channel form, it had been available in a majority of Welsh homes for more than twenty years. S4C was thus conceived as a smaller Welsh-language equivalent of BBC1 and ITV, with a similar need to apportion its resources, within one channel, to achieving a range of public broadcasting objectives. The overall shape of S4C's programme service continues to fit that general description today.

1.1.3 The perception of what constitutes television broadcasting in the English language has changed out of all recognition since 1981. As forecast above, it will change still further after analogue switch-off. Welsh language television needs to modernise so that it equates more closely to that which viewers expect from television in the digital age. Such modernisation will be essential if S4C is to continue operating successfully in what is already a far more competitive broadcasting environment.

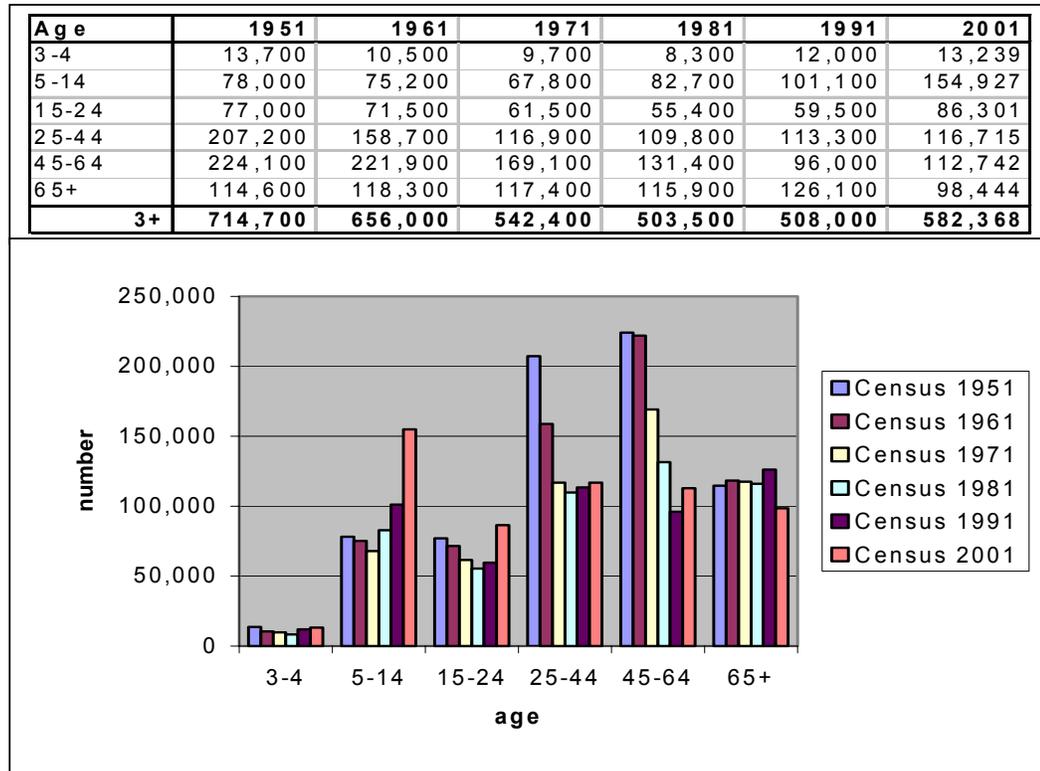
1.2 Audience Changes

1.2.1 S4C's vision for a modernised service fit for the 21st Century also needs to take account of the changes facing the Welsh language and communities that speak the language. The results of the 2001 Census indicated that there has been an encouraging growth in the total number of people speaking Welsh over the last decade. The 2001 total of 582,400 Welsh speakers (20.8% of the population) represents a significant increase on the 1991 figure of 508,100 (18.7%) individual Welsh speakers. Many factors have contributed to this turn-around in the fortunes of the language. The demand-led growth in Welsh medium education over recent decades has been perhaps the single most important. There has also been an Education Act that made the learning of Welsh compulsory up to the age of 16 and at least two pieces of legislation (the 1993 Welsh Language Act and the 1998 Government of Wales Act) that have confirmed the language's official status. But it is generally accepted, including most recently in the Welsh Assembly Government's National Action Plan for the language², that television plays an important supporting rôle.

² Iaith Pawb: A National Action Plan for a Bilingual Wales, Wales Assembly Government, February 2003

1.2.2 The Census also suggested that there are important changes taking place in the make-up of the core Welsh speaking audience, as Figure 1 illustrates. The overall growth in the Welsh speaking population was due to the increase in the number of young people speaking the language. Fully 40.8% of this age group are now categorised as Welsh speakers (up from 26% in 1991). Although the number of over 65's speaking Welsh continues to decline – and this group are heavy users of S4C, reflecting the primacy of Welsh in their lives – there has also been an increase in the number of 45-64 year olds speaking Welsh. This could reflect the substantial number of adults learning Welsh as a second language.

Figure 1: Welsh language speakers: percentage according to age



1.2.3 There are also important changes taking place in the geographic distribution of Welsh speakers about which S4C needs to be aware. The new breed of Welsh speakers are more likely to live in urban areas and they are more likely to be living in communities where relatively few people speak Welsh.

1.2.4 **These changes demonstrate the importance of providing a comprehensive Welsh language service and a meeting place for all those who speak the language. S4C needs to appeal to young people and newcomers to the language as well as to the older more traditional audience. Television has the potential to play an even more important rôle than it has to date in reinforcing the position of the language in young people's lives. To succeed, S4C will need to keep track of the changes in the make up of the Welsh speaking population as it determines its priorities for the programme service. We do not underestimate the scale of the challenge that appealing to the younger audience represents.**

1.3 An Evolving Service

(i) *Range and Choice*

- 1.3.1 If the Welsh language service S4C wants to provide is to make its mark, it will need to reflect and keep pace with the growing and changing expectations of viewers of all ages. We have identified five key areas where S4C will need to develop and enhance the service it is currently able to provide. The first concerns the range of programmes on offer to viewers and the digital capacity this will require.
- 1.3.2 One of the most consistent messages emerging from S4C's audience research is that Welsh speakers do not constitute a single, homogenous, set of people. Though there are certain elements of shared history and culture as well as the fundamental language link, they diverge in their tastes and interests in much the same way as English speakers. These differences arise in obvious ways, e.g. children want programmes of their own, while sport divides as well as unifies a nation (there are those who like it and those who don't). There are those who love programmes about gardening, houses, holidays, the arts, current affairs and music and for each of these there are even greater numbers who do not. In Wales, one can add the factors of rural interests and agriculture, which are extremely attractive to a certain cross-section of S4C's audience while having only limited relevance to many urban viewers. The task of catering for these widely divergent interests, within a comparatively narrow segment of broadcasting time, is tough. We must also ensure the consistency required by demanding viewers, whose channel promiscuity, facilitated by the remote control and encouraged by aggressive marketing, will become ever greater.
- 1.3.3 A successful response to this challenge will require that S4C can make fuller use of the digital capacity it was awarded under the 1996 Act, only part of which is used to deliver S4C Digital and the Assembly coverage on S4C2. At the moment S4C generates modest amounts of additional income by sub-leasing its excess capacity for use by other channels. We believe that the public benefit that would arise from being able to extend the service we provide on S4C2 would far outweigh any benefits the private sector has been able to deliver on this capacity to date. S4C began to demonstrate what might be possible in this area with its Digital College pilot. Initiatives such as the Teacher's Channel³ are beginning to tap into the potential of digital television to deliver a much wider range of social benefits. The digital capacity available to S4C offers the prospect of bringing a similar range of benefits for individuals and communities in Wales.
- 1.3.4 In English-language television, the BBC has adopted, and the Government has approved, a multi-channel strategy for the delivery of its public service remit. A single, well resourced general interest channel is retained, but operates in conjunction with a number of niche services which allow a much wider choice of viewing especially in peak hours, to take account of different tastes and interests. ITV are developing a similar strategy; Channel 4 likewise. A multi-channel strategy, furthermore, offers the opportunity to develop different identities for each channel and a greater ability to fulfil expectations consistently.

³ The Teacher's Channel is an initiative from DfES which aims to commission and broadcast continuing professional development materials for teachers via a satellite television channel

1.3.5 The long-term objective for a Welsh-language television service fit for the twenty-first century must be to develop a second channel targeted at the younger viewer, allowing the development of a consistently contemporary idiom and identity, while allowing the primary channel, S4C1, to continue to fulfil the expectations of the somewhat older and more traditional viewer, particularly those for whom Welsh is the main everyday language of communication. There would of course be continuous interaction and cross-promotion between the two channels, recognising that tastes and interests do not always fall into clearly separated boxes. Even closer co-operation with the BBC's Radio Cymru and indeed commercial radio stations broadcasting in Welsh would serve to promote the diversity of choice available in Welsh across more than one platform and medium.

1.3.6 Developing S4C2 would allow S4C to differentiate far more clearly between the needs and interests of the traditional audience and that which is likely to be of interest to the new breed of Welsh speaker. It will become increasingly difficult for S4C to cater for the needs of both groups on a single channel against a backdrop of television more generally offering channels which reflect a far narrower subject range. Exploiting the additional capacity available to S4C also offers the prospect of delivering a wider set of social goals, such as those associated with initiatives such as the Teachers Channel and the Digital College.

(ii) *Quality and High Points*

1.3.7 For Welsh viewers, the benchmarks of quality are those set by BBC1 and ITV1. If ever there was a time when Welsh speakers were tolerant of lower quality in Welsh language programmes that time is long past. The expectation consistently revealed by research is that Welsh language programmes must aspire to quality levels at least as high as that available on mainstream UK channels. High expectations exist with reference to production values, originality, reporting and analysis, performing talent, humour, directing, lighting, and even set construction. Quality must be sustained across the widest possible range of output both through appropriate investment in programmes and in longer-term development of the production sector and of individual talent.

1.3.8 As television becomes more competitive there will be an increasing premium placed on programmes which stand out from the pack. Even more than is the case already, programme schedules will need a consistent flow of highpoints that comprise 'appointments to view' for different groups of viewers. S4C will need to accord a higher priority to landmark programmes beyond those which are associated with particular events as at present. In S4C's case this is not going to be the result of big programme budgets which are a feature of programmes - such as *Blue Planet* on the main networks. Stand-out moments are more likely to be the result of programmes that capture people's imaginations through their creative excellence and their distinctiveness. In S4C's case a landmark programme might be a classic drama series, a musical event or even exclusive coverage of a great sporting occasion. What these examples have in common is that they enable S4C to make an original and distinctive contribution which draws on the best creative and performing talent available.

1.3.9 One area of landmark programming, where S4C has achieved notable success in the past, is film. Some of the UK's brightest young screen acting talent made their first film appearances in Welsh language films commissioned by S4C. In recent years we have been unable to sustain an earlier commitment towards ensuring one or two theatrical film release every year due to budgetary constraints. S4C will never be able to use Hollywood movies to enrich its service and provide standout moments in the manner that is available to every other public service broadcaster. We do, however, believe it is essential for S4C to ensure a more regular flow of home produced films because of the particular contribution they make both on and off screen.

1.3.10 It is a cause for concern that film, high end animation and other productions that have provided high points in the past are no longer such a prominent feature of the programme schedule. S4C is likely to have to invest greater sums in those series which currently generate the best viewer response if they are to continue to be successful in future. Both factors point to the continuing importance of maximising investment in S4C's core programme service.

(iii) *Distinctiveness*

1.3.11 We are all potentially enriched by access to new sources of information, entertainment and education. The internet has transformed people's lives. We are all becoming more cosmopolitan although each in our individual separate ways rather than *en masse*, village by village, suburb by suburb. Each of us is potentially part of some virtual community or other which is not dependent on the place in which we live.

1.3.12 Welsh-speakers are from an early age, bilingual. There is practically no international subject that we might think of that is not likely to be covered in some way by some specialist TV channel from England, America or elsewhere. The challenge now is to find that which is distinctively our message and our content. Not necessarily always about Wales, but necessarily distinctive and different from what might be available on channels 105 – 999. To be distinctive is to place a high premium on being original and on creating material produced with the S4C audience in mind. Talent of all kinds must be nurtured and allowed to develop its own voice and must be given to believe that it is needed and cherished by us.

1.3.13 Original, distinctive programmes will command a high priority for a generalist channel in the multi-channel world. They will need to be a still more prominent feature of S4C's programme service as we approach switchover. S4C will also need to place an even greater emphasis on the nurturing and development of the creative talent on which truly distinctive programmes will depend.

(iv) *Interactivity*

1.3.14 We also attach a particular importance towards developing S4C's capacity to deliver interactive services. The review has highlighted the extent to which people's viewing experiences are increasingly being enriched by supplementary material made available by the web or by the possibility of interacting with programmes in other ways. The other public service broadcasters are taking steps to ensure that they can take advantage of the opportunity provided by emerging new platforms. As digital technologies converge these opportunities are likely to multiply.

1.3.15 The enhanced features available on digital platforms offer particular benefits to a minority language broadcaster. The coverage of The National Assembly for Wales on S4C2, for example, offers a choice of soundtracks, reflecting the bilingual nature of the proceedings. As yet this has not become a feature of the service more generally. Neither have the so-called red-button services which are now a feature on the main networks.

1.3.16 It is essential that S4C keeps pace with its viewers' expectations for interactive services. It also needs to play its part in ensuring that the exciting possibilities offered by broadband links provide opportunities to access a rich array of Welsh language content alongside that which will be available in other languages. We strongly support S4C's desire to harness the new opportunities that surround making programmes more widely available via webcasting.

(v) *A New Deal for Children*

1.3.17 The development of dedicated children's services is one of the clearest examples of the changing pattern of broadcasting emerging on digital platforms. Channels such as the BBC's CBBC and CBeebies services have altered the expectation of both parents and children as to what television can provide. Although the notion of a relatively limited block of children's programmes at lunchtime and around teatime lives on, it does so only in analogue homes, which in Wales now constitute a minority of households. In multichannel homes, children and their parents expect programmes specifically aimed at children to be available at all times and, increasingly, they are.

1.3.18 S4C has consistently afforded a high priority to its children's programmes because of the wider educational benefits it believes those programmes bring. It is in no doubt that its programmes will continue to offer these wider benefits in the more competitive climate that will exist post switchover. Its confidence is in part related to its ability to interact with children in their schools and their communities. S4C's presence in Wales's national festivals and at events throughout Wales provides it with a golden opportunity to reinforce that which children see on their television screens. But S4C will only be able to carry on harnessing the power of television in this way if it can offer an extended children's service which is more in keeping with the expectations today's children now have.

1.3.19 S4C has capacity available before school, after school and during the day to deliver an expanded service for children. This could offer a still more valuable resource in support of Wales' distinctive education agenda. At the moment S4C would only be able to provide such a service at the expense of its investment in programmes shown in peak.

1.4 **New Ways to Engage**

1.4.1 As competition in television intensifies, it will become harder and harder for individual programmes to get noticed. Broadcasters with a multi-channel presence will cross-promote still more strongly across their family of channels. Even greater sums will be spent on off-screen marketing. A minority broadcaster like S4C is unlikely to be able to compete in either of these areas. Neither will it be able to benefit from the enormous amount of editorial coverage devoted to certain sorts of programmes and to the celebrities associated with those programmes on the main networks.

- 1.4.2 In these circumstances it will become even more important for S4C to find new ways to engage with its viewers and with the diverse communities it serves. Its ability to do so will always be greatest when that engagement is driven by programme content. One way in which the channel might find new ways to engage with viewers is through extending the number of events with which it is associated. S4C has always accorded a high priority to its coverage of Wales' main cultural festivals. In recent years, S4C has become an important contributing factor to a range of new events, from Bryn Terfel's Faenol Festival to the Daily Post's annual Carol Concert.
- 1.4.3 S4C's experience has also pointed to the benefits that can be derived from more direct engagement with communities, particularly those hard to reach communities in rural areas. There has been a consistently enthusiastic response to concerts and to other events that S4C has sponsored in small scale community venues. During the autumn of 2003 for example, and with the support of the Welsh Language Board, the *Popt* schools tour brought performances by live bands to 90 schools and an estimated 19,000 pupils all over Wales. Hard on its heels, S4C's touring Santa's Grotto, featuring many of the channel's most popular children's characters, visited 10 towns around Wales and delivered a different dimension to the pre-Christmas celebrations of more than 3,000 children. Earlier in 2003 the charity walk from north to south Wales undertaken in support of Ty Hafan/Ty Gobaith, S4C's nominated charity for the year, also demonstrated that off-screen activities which are an extension of programmes appearing on the channel can have a powerful effect on the audience.
- 1.4.4 S4C should also continue to explore the possibility of new forms of creative partnerships with cultural and artistic organisations, particularly those with strong community links. S4C's co-operation with Cwmni Theatr Maldwyn in the staging of *Ann!* (a musical based on the life of the hymnist Ann Griffiths), for example, resulted in a memorable musical project the success of which led to a series of additional live performances at major venues. These were a fitting finale for a theatre company which had made a unique contribution to the cultural life of mid Wales. The success of that project was in no small measure the result of being able to work with a well-established group of artists. In contrast, S4C's choral competition *Côr Cymru* was an example of an initiative that, through its modern and innovative approach, attracted a number of new groups of young people to what tends to be seen as a rather 'traditional' pursuit. What both programmes had in common was that they resulted in programmes which achieved an impact that neither S4C nor the other organisations involved could have achieved working alone.
- 1.4.5 We believe that in future S4C will need to develop a still wider range of programmes that find new ways to engage. It should aim to harness the power of television to a wider and still more varied programme of events. This might involve S4C acting as a cultural catalyst inspiring new sorts of programmes and events. It must ensure even closer contacts with the diverse communities S4C seeks to serve. Success in this area is unlikely to be the result of S4C acting alone. We conclude that S4C will need to place a greater emphasis on developing partnerships and increasing the number of organisations with whom it might usefully co-operate as a broadcasting partner. We have been encouraged by the preliminary response received from a range of Welsh organisations during discussions conducted as part of this review. There was a general recognition of the part that television can play in securing the maximum possible impact from scarce resources. We look forward to being able to develop these relationships, to the benefits of both sides, in the future.**

1.5 **An Inclusive Service for All**

- 1.5.1 In the light of the evidence provided by the Census, we have also taken the opportunity provided by the review to reaffirm our view as to the essentially Welsh character of S4C's programme service. As S4C moves to reinterpret its statutory remit to fit the needs of the digital age, this is one aspect of the service that we believe should remain unchanged. In coming to this view, we were conscious that other minority language channels have taken a different approach. The option pursued by TG4, the Irish language channel, has been to use part of its programme budget to acquire English-language programmes. Its policy is to acquire low cost American films which are broadcast in regular slots, including within peak-time. It is argued that the commercial revenues generated by these films exceed their cost of acquisition and serve to some extent to deliver a wider audience to the Irish-language programmes which follow them.
- 1.5.2 Given the different comparative strengths of the two languages, S4C does not believe that such a policy would be acceptable to Welsh-speaking viewers for whom the concept of a "Sianel Gymraeg" is deeply rooted and considered to have been a hard-won prize. The general acceptance of the compromise represented hitherto by the inclusion of Channel 4 programmes is widespread and based on twenty years' experience. Turning to an entirely new source of English-language programmes, with the perception that this would be instead of the commissioning and acquisition of more Welsh-language programmes would, the Authority believes, be rejected to an unacceptable extent.
- 1.5.3 The strongest reason, however, for rejecting the English-language option is because we believe that the appropriate interpretation, in the digital environment, of the remit placed upon S4C, is to seek to use the released broadcast hours for the purpose of offering, to the best of its ability, a Welsh-language service in keeping with the expanded expectations of viewers of digital television.
- 1.5.4 S4C will not be able to play this rôle if it dilutes either the level or the amount of Welsh in the service it provides. If S4C is to be a valuable part of Welsh culture, it needs to be about creativity and excellence achieved through the medium of Welsh. It needs to be a platform for the creative use of language in drama, poetry and the arts. But is also needs to be about clear and effective use of language in areas such as sport, comedy and more popular entertainment of all sorts.
- 1.5.5 Wales is fortunate in being able to enjoy a range of home produced performing and creative talent such as the likes of Bryn Terfel, Rhys Ifans and Ioan Gruffudd. But part of the gift possessed by those performers is that they can perform in two languages. They would be diminished and Wales would be diminished were they to be deprived of the opportunities that S4C provides to perform on the national stage in Welsh as well as English. S4C has a crucial rôle to play in ensuring that those opportunities continue.
- 1.5.6 We are pleased to reaffirm our commitment to maintaining S4C as a Welsh language service. But we are also anxious to underline our inclusive ambition for that service. By extending the availability of subtitles and by offering distinctive and attractive programmes our ambition is that S4C should be enjoyed by as many people as possible, both Welsh speakers and non Welsh speakers. One of the powerful things about television is that it can provide a way in to the language for those who do not speak it. This has always been the case as far as non Welsh speakers in Wales are

concerned. We look forward to being able to realise the exciting opportunities that arise from the service now being available on digital satellite throughout the rest of the UK. The development of webcasting opens up the even more interesting prospect of making Welsh language television services available throughout the world. Once again, it is the creative excellence underpinning S4C's programmes that will ultimately determine success in this environment.

1.5.7 To discharge its remit effectively, S4C needs to continue to provide a high quality television service to Welsh speakers. Further, to retain widespread public support and engender the goodwill on which the future of the Welsh language depends, S4C also needs to deliver a service of which the whole of Wales can continue to be proud and which is accessible to as many people as possible. S4C must continue to invest in subtitling and other technologies that promote greater access to the service for all viewers. We also support the continued investment in new technologies, such as the internet, which will ensure that the service is made available to as wide an audience as possible.

1.6 A New Range of Benefits

1.6.1 S4C has demonstrated very clearly during its first two decades that the wider social benefits and the added value associated with public service broadcasting are essential characteristics of broadcasting in the Welsh language just as they are of broadcasting in English. S4C remains primarily a medium which aims to inform, educate and entertain. But it is also a service which plays a crucial cultural role, whether as a sponsor of and platform for young talent or as the largest single source of commissions for new Welsh drama. It also secures important economic benefits and is an important source of jobs in traditional Welsh-speaking areas. S4C also plays a key role in support of the wider efforts to promote the language.

1.6.2 The Government's commitment to digital television derives primarily from a belief in the wider benefits that digital technologies can deliver. Digital platforms offer greater choice. Digital television can provide viewers with a far more interactive and powerful viewing experience. It offers a range of supplementary services that can provide greater access for disadvantaged viewers. It offers the prospect of television becoming a still more powerful tool that can help promote and deliver lifelong learning. The interactive potential of digital television could even have a role in developing the capacity of individuals to make a greater contribution as active citizens. It would be consistent with the Government's commitment towards a public broadcasting system which reflects the diversity of the United Kingdom to ensure that in future these are amongst the enhanced benefits derived from S4C.

1.6.3 In order to understand fully the benefits that a modernised Welsh language digital broadcasting service might deliver in future, we felt it was important to take stock of the wider benefits that S4C delivers at the moment. An audit of the wider cultural, social and economic benefits derived from Welsh language broadcasting was, therefore, conducted as part of this review. The results of the audit are described in more detail in the fourth and final part of this report. We believe that a qualitative assessment of this nature needs to be an essential feature of any attempt to measure the benefit gained from public service broadcasting in the round. The key components of our analysis will be submitted for consideration as part of Ofcom's review of public service broadcasting. It will also be drawn upon in S4C's contribution to the debate on the review of the BBC's Charter.

1.6.4 Many of the wider benefits derived from S4C's programme service are common to all public service broadcasters. However, S4C also offers the unique advantage of taking the Welsh language to places where it otherwise would not be. As the language changes and evolves, the fact that it is a feature of the most powerful mass medium that we have will become an increasingly important factor. Our vision is for a modernised Welsh language television service fit for the 21st Century which makes an even more valuable contribution than it does today.

Chapter 2: Efficient Use of Resources

Ensuring that the resources made available to fund Welsh language television are being utilised effectively is an essential element in S4C's public accountability. It is also a central element of the continuing overview which the S4C Authority provides. This second part of the report looks at a range of quantitative indicators that relate to the efficiency with which S4C makes use of its funds. It examines the extent to which S4C has succeeded through its own efforts to maximise these funds. It also considers the extent to which S4C could bring about the changes associated with modernisation from within its own resources. This part of the review has generated a body of more detailed evidence which will be available for inspection, and for validation where appropriate, by S4C's external reviewers.

2.1 An Expanding Service

2.1.1 Since its launch in 1982, S4C has sought to maximise the range and quality of the public services it provides. It has been helped immeasurably in this regard by having access to the whole of Channel 4's output. S4C's dual remit on analogue continues to be to provide viewers in Wales with a service comprising the best of Channel 4's output alongside Welsh language programmes. The sustaining nature of the link with Channel 4 minimises the pressures that might otherwise arise to pursue the range referred to above at the expense of quality. Viewers have generally accepted the compromise whereby S4C broadcasts largely in Welsh during peak hours and Channel 4 in English at other times. An important factor contributing towards this compromise has been S4C's ability gradually to increase the number of hours broadcast every week in Welsh. Ten years after its launch (see Table 1) S4C was broadcasting in Welsh for 32 hours every week, a 50% increase over the period. However, as the figures in Table 1 also indicates this period saw a still more dramatic increase in the number of hours broadcast in English as broadcasting patterns changed and the main networks, including Channel 4, moved towards broadcasting 24 hours every day.

Table 1: Weekly Broadcast Hours on S4C Analogue

	Welsh	English
1983	22	47
1987	26	76
1992	32	104
1997	34	113
2002	38	120

2.2.2 Throughout this early period, S4C's funding formula was tied to the general increase in advertising revenues (each year S4C would receive an amount equivalent to a specified percentage of national advertising revenues – initially 3.4%, then 3.2% from 1993 when it was allowed to sell its own advertising). However, since 1998, under a revised funding formula introduced by the 1996 Broadcasting Act, S4C's funding has been linked to the increase in general prices as measured by the Retail Price Index (RPI). Since 1998, the value of the funding S4C receives from Government has, therefore, remained constant in real terms. Indeed, it can be argued that the buying power of S4C's grant-in-aid has actually reduced given that wage inflation tends to run ahead of general inflation. We believe that this is a crucial factor to be considered alongside the expanded service that S4C has achieved over this period.

- 2.2.3 What made this growth possible was S4C's early commitment to the benefits offered by digital television. Digital television does not have the same capacity constraints that apply to analogue television. Digital viewers in Wales can receive Channel 4 as well as S4C. Even though it received no extra funds to cover the additional transmission costs involved, S4C has been able to use its digital service, launched in November 1998, to enhance the service it provides to Welsh speakers. Prior to 1998, S4C was able to broadcast in Welsh for some 34 hours every week, mainly during peak. Today, S4C Digital broadcasts in Welsh for some 80 hours every week, typically from noon until around midnight. S4C was also able to take advantage of the greater capacity available on digital platforms to launch S4C2 which, in a unique partnership with the BBC, provides comprehensive coverage of the proceedings of the National Assembly for Wales. Once again, S4C's contribution was made possible through efficiency savings and without S4C having received additional resources.
- 2.2.4 Digital television has enabled S4C to deliver a step change in its output and in the geographic coverage that the service enjoys. As a result of negotiating the necessary broadcast rights clearances, S4C's digital satellite service has since November 2002 been available to satellite viewers throughout the UK. (S4C appears on button 104 in Wales and 184 in the rest of the UK.) The satellite service has allowed S4C to evolve from a service primarily directed towards a little over 1 million households⁴ in Wales (along with a certain amount of spillover in the south-west and the Wirral) to become a service that is now available to more than seven million households throughout the UK. The BARB system is not designed to reflect the distribution of Welsh speakers outside Wales and, to date, has not been able to provide an accurate reflection of the level of viewing outside Wales. We do, however, know that under the system in place prior to the service being made available to all satellite viewers, more than 40,000 households went to the trouble of telephoning Sky to request that S4C be added to their channel listings. The feedback that S4C receives from viewers outside Wales also underlines the extent to which its service is now valued and, indeed, cherished by Welsh speakers (as well as some non-Welsh speakers) amongst the more than 600,000 people of Welsh origin⁵, which Census figures indicate are now living in different parts of the UK.
- 2.2.5 Comparisons between S4C's digital service today and the analogue service five years ago must, however, take into account the very different nature of the two services. S4C's funding formula was designed to support an analogue service broadcasting for three hours every evening during peak. It was not intended to support a service making full use of the digital capacity gifted to S4C under the 1996 Broadcasting Act. S4C has not, therefore, been able to invest in new programmes for the digital service in the manner it would have wished. Its priority remains the peak hour programmes that are broadcast simultaneously (simulcast) on the analogue and digital channels. In 2002, a little over 8% (including repeat fees) of the programme budget was spent on programmes which are only available on the digital channel. Because of the pressures on the schedule during peak hours this figure will be lower still in 2004.
- 2.2.6 S4C has been able to use the capacity available on digital to expand its live coverage of Wales's main cultural festivals. S4C Digital also provides some daytime programming and extended coverage of the arts and current affairs. But, of necessity, S4C Digital, as it is currently constituted, includes a far greater percentage of repeated programmes and makes far more use of archive programming than is desirable. S4C2

⁴ The BARB universe in Wales comprises 1,106,000 households

⁵ Data from Office of National Statistics

– whilst providing a valuable public service - does not broadcast at all outside those hours when the National Assembly is in session. The S4C Authority is in no doubt that S4C's digital service will require a far greater level of investment in original programmes if they are to compete successfully in an increasingly competitive multi-channel environment.

2.2.7 Even allowing for these qualifications, what is not in doubt is that S4C is today delivering a much-expanded service from funding that has remained constant in real terms since 1998. On a crude cost per hour basis, every pound invested today is generating more than twice the number of hours broadcast than were previously broadcast on the analogue channel alone. We believe that this step change in the scale and geographic coverage of the service is one of the most dramatic indications of the efficiency with which S4C makes use of the funds it has available. There is much more to be done if the digital services are to correspond to the aspirations the Authority has for them. But they are already delivering an enhanced service and they are now available across the UK.

2.3 Flexibility in Commissioning

2.3.1 A crucial factor underpinning S4C's ability to make the efficiency improvements that have made it possible to launch these new services has been the way in which it commissions its programmes. S4C is a commissioner-broadcaster. With the exception of wrap-around material for its children's programmes and the ten hours of programmes every week provided by the BBC, S4C commissions virtually the entirety of its Welsh language output from external producers. During 2002 (the last year for which audited figures are available) S4C spent 97.4% of its programme budget with external producers based in Wales.

2.3.2 S4C has been a commissioner-broadcaster ever since it was launched in 1982. There is no statutory obligation to commission from the independent sector in this way. S4C believes that this method of acquiring programmes is, however, the most efficient and effective way of harnessing the creative and technical talent at its disposal. It has also served to spread very considerably the economic impact of S4C production to different parts of Wales. In the summer of 2003, S4C indicated to the independent production sector that, in recognition of the far reaching consequences, any change to this policy would only take place after extensive consultation and a considerable period of warning.

2.3.3 There are disadvantages as well as advantages to the commissioner-broadcaster model. Small production companies can lack the capacity to secure the benefits derived from economies of scale. They may also find it more difficult to allocate resources to development and training, which could lead to an additional burden on S4C. Retention of rights by suppliers may make it economically more attractive to reconsider in-house production in certain *genres*. S4C believes that these disadvantages are outweighed by the benefits that it derives from the split between purchaser and provider. It can select the best creative ideas irrespective of where they come from. The system also offers flexibility which can help S4C to respond quickly to changing tastes in an increasingly fast moving broadcasting environment. This flexibility was crucial in enabling S4C to make the shift in the number of hours broadcast when the digital service was launched. S4C's commissioning model also results in some important economic benefits that are investigated in the final part of this report.

2.4 Control of Costs

2.4.1 The other crucial aspect of the commissioner-broadcaster model is that it provides a source of competitive pressure which hopefully provides a spur to creative endeavour but which certainly enables S4C to maintain a downward pressure upon costs. S4C's programme costs are significantly below those of the channels with which it competes. The Authority believes that this is an important indicator of the efficiency with which S4C utilises the funds it can invest in programmes. Table 2 provides an indication of the evidence that the Authority drew upon in coming to this conclusion. The average cost per hour of programmes commissioned by S4C is typically around a third of the cost of programmes on the main networks.

Table 2: Comparison of Programme Costs⁶ (Cost per hour £'000)

Genre	1995			
	S4C	BBC	S4C as % BBC	UK Independent Producers ⁷
Arts and Music	64.3	116	55	111
Children's	53.0	116	45	93
Drama Series	183.0	489	37	604
Education	50.0	146	34	111
Entertainment	73.3	214	34	87
Sport	25.4	59	43	14
Religion	32.5	-	-	50

Genre	2000			
	S4C	BBC	S4C as % BBC	Channel 4
Arts and Music	21.0	110	19	52
Children's	30.4	90	33	10
Drama Series	157.0	486	32	92
Education	57.5	120	48	60
Entertainment	65.3	183	36	52
Sport	34.5	102	33	35
Religion	11.6	102	12	65

Genre	2002			
	S4C	BBC	S4C as % BBC	Channel 4
Arts and Music	20.8	142.7	15	39.6
Children's	56.4	83.7	67	22.8
Drama Series	161.4	526.7	31	70.1
Education	46.7	119.1	39	44.2
Entertainment	49.1	177.3	28	62.2
Sport	34.3	192.2	18	34.9
Religion	13.8	112.7	12	71.2

⁶ Source: BBC Annual Report 1994-95, 2000-01, 2002-03; S4C Annual Report 1995, 2000, 2002; Channel 4 Annual Report, 2000, 2004

⁷ PACT/Price Waterhouse survey published July 1995

- 2.4.2 It is worth mentioning in this context that as the above figures indicate S4C makes very little use of acquired material. During 2002 acquired programmes accounted for just 102 hours (2.4%) out of the more than 4,300 hours broadcast. This compares with an acquisitions figure of 32% for Channel 4⁸ and 20% for the BBC⁹. The most important factor influencing the S4C figure is that Welsh language material from other broadcasters is not, of course, available at the international television sales markets. The very low level of acquisitions also reflects the resistance of British audiences, including Welsh speakers, to dubbed programmes. With the exception of a small amount of reverted sports material and children's animation, S4C's experiments with acquired programming have not been particularly successful.
- 2.4.3 The minimal scope for S4C to mirror the practice of other networks to make skilful use of acquired programming (which tends to cost less than original productions) has two important consequences for S4C. The first is that it cannot hope to use acquired programming as a means of introducing variety to the schedule or, as is the case for certain US shows such as *ER* and *West Wing* (both of which are currently broadcast on S4C in Wales), high profile 'appointments to view'. Neither is S4C able to take advantage of the relatively lower cost of acquired series. Comparisons between different types of broadcasters are never straightforward, but comparisons between S4C's costs and those of other broadcasters need to take this very low level of acquired programmes into account. This only serves to underline the considerable achievement in terms of controlling costs that Table 2 represents.
- 2.4.4 We welcome and attach considerable importance to the contribution that astute commissioning – allied to rigorous cost control – has made to the efficiency with which S4C's programme service is delivered. S4C ability to allow competition to control costs does, however, need to be used sensitively. There will always be some connection between the cost of a production and its quality. We are aware that concern has been expressed over recent years by independent producers that in its desire to generate additional content for its new digital service, S4C has driven down costs to the point where quality has been compromised. There is a sensitive balance to be struck here, but we are satisfied that, especially during the early days of digital, it was sensible to harness opportunities to make more effective use of studios and other facilities on a marginal cost basis.
- 2.4.5 Whilst enabling S4C to secure important one-off efficiency savings, this 'bundling' of productions does not provide a mechanism for generating continuing savings. We do not believe that there is now any appreciable scope to generate further 'efficiency' savings by driving down still further the amount S4C pays for its programmes. The figures in Table 2 offer clear evidence in support of this view. Our concern is that any further move in this direction would lead to visible indications of falling quality on the screen and thus damage S4C's ability to compete with peak hours programming able to draw on resources far in excess of that which it has available.**

⁸ Source: Channel 4 Annual Report 2002

⁹ Source: BBC Annual Report 2002-03 (figures for BBC1-4 and Children's channels)

2.5 Minimising Overheads

2.5.1 Controlling production costs is one important measure of efficiency and one means of maximising output. The other important means by which S4C is able to maximise its investment in programmes and demonstrate its efficiency is through tight control of non-programme expenditure. S4C has had a long-standing target of ensuring that the overheads to the programme service should represent no more than 10% of total expenditure. Table 3 demonstrates the success that has been achieved in this area.

Table 3: S4C Administration Costs¹⁰

Year	Overheads	Total Expenditure	Overheads
	£m	£m	%
1995	7.0	69.6	10.1
1996	7.5	77.8	9.6
1997	7.6	74.7	10.2
1998	7.7	72.3	10.6
1999	7.4	81.1	9.1
2000	7.7	86.7	8.8
2001	8.3	91.0	9.1
2002	8.0	88.9	9.0

2.5.2 S4C has traditionally accounted for marketing and audience research costs as part of the overhead figure. Including these costs within programme costs brings S4C's level of overheads down to 5.2% of total expenditure. The comparable figure for the BBC is 15%. Even allowing for the very different nature of these two organisations, we believe that this comparison does provide a useful benchmark and a very clear indication of S4C's financial efficiency.

2.5.3 As part of its commitment towards the control of overheads, S4C also seeks to maintain tight control of staffing costs. As part of the review process, the Authority looked at S4C's staffing levels. It also commissioned an independent benchmarking exercise on salary levels. The last five years have seen a significant increase in the number of staff employed by S4C. In 1997 (the year before it launched its digital service) S4C employed 147 whole time equivalent (wte) members of staff. This figure had increased to 204 (wte) by 2002. A detailed analysis commissioned for the review which investigated each of the jobs created during this period pointed to two factors in particular as having contributed towards this increase. The first was the increase in staffing required to run the digital service and maintain two transmission systems – one for the analogue service and the other for S4C Digital and S4C2 – which accounted for 13 of these additional posts. Secondly, the analysis indicated that a further 30 of the 57 new posts were the result of bringing a range of functions in-house with a view, in each case, to achieving savings compared to the previous costs of the contracted out service or of employing freelance staff.

2.5.4 An independent salary benchmarking exercise was also carried out. This sought to compare the salaries of 18 key posts within S4C with salary levels in four other broadcasters. This is an area where once again accurate comparisons are difficult to make. Job titles and job descriptions vary from broadcaster to broadcaster. Some allowance also needs to be made for the fact that S4C is based outside London. Nevertheless, the very clear conclusion to emerge from the study, is that S4C salary levels tend to be at, or more often below, those of other broadcasters.

¹⁰ Source: S4C Annual Reports

2.5.5 S4C's expenditure on non-programme items compares favourably with other broadcasters. So do S4C salary levels across a range of key posts. We are satisfied that the increase in the number of staff S4C employs directly was justified given the expansion in services which has occurred and given the improved overall value for money (and reduction in total costs) that has been achieved by bringing certain non-programme functions in-house. The detailed report which provided the basis for this decision will be available for scrutiny by the review team commissioned by the DCMS. The review team will also be able to scrutinise the study that analysed S4C's salary levels.

2.6 Audience Response

2.6.1 Any assessment of S4C's effectiveness also needs to take into account the response of its viewers. S4C subscribes to the independent Broadcasters' Audience Research Board (BARB) system for measuring television audiences. This provides data on the audience for individual programmes, on the share of total viewing devoted to S4C's programmes ('programme share') and on the total number of viewers that tune into the service on average during the course of a week ('reach'). S4C also commissions extensive research aimed at assessing the opinions that viewers have of the service, as well as their assessment of its quality. This quantitative and qualitative research data is of vital importance as a management tool for S4C. Publication of this data is also an important ingredient in S4C's public accountability and a prominent feature of every Annual Report.

2.6.2 S4C publishes the viewing figures for its top twenty programmes every week in the Welsh language newspaper *Y Cymro*. S4C's Annual Report includes a more detailed analysis of viewing levels as well as details of the most popular programmes over the year as a whole. These figures demonstrate very clearly the increasingly competitive broadcasting environment within which S4C now operates. S4C is still able to generate audiences in excess of 100,000 for its most popular programmes (notably the daily soap *Pobol y Cwm* and its live rugby coverage on Saturday evenings). The period since 1998 has, however, seen a gradual decline in audiences across the board. S4C's share for 2002 was 5.2% of all viewing compared with a share figure of 6.3% for 2001. S4C's weekly reach¹¹ fell from 51% to 48% of all viewers over the same period. It was, however, notable that the average weekly reach for S4C's Welsh language programmes stayed constant at 29% of all viewers and that this represented an increase in the total number of viewers tuning in from 712,000 to 728,000 viewers.

2.6.3 Figures 2 and 3 seek to place this most recent decline into a broader historical context. S4C's programme share was between 8% and 10% of all viewers throughout the 1990s. Throughout this period S4C enjoyed an average weekly reach of around 70% of all viewers in Wales. The last five years have seen a gradual decline across both these measures of viewing. It is, however, notable that the 6.3% share figure in 2001 is only slightly below the 6.5% average share that S4C enjoyed throughout its first decade. We believe that the launch of other public service channels intended to cater for particularly groups of viewers (such as BBC3 and BBC4) does begin to provide a new set of benchmarks against which S4C's success in terms of audience response can be measured.

¹¹ BARB defines weekly reach as a percentage of the total viewing audience who tune into a service for three consecutive minutes or more during the course of a week, averaged over the year

Figure 2 – Television Audience Share All Viewers All Hours 1993-2002

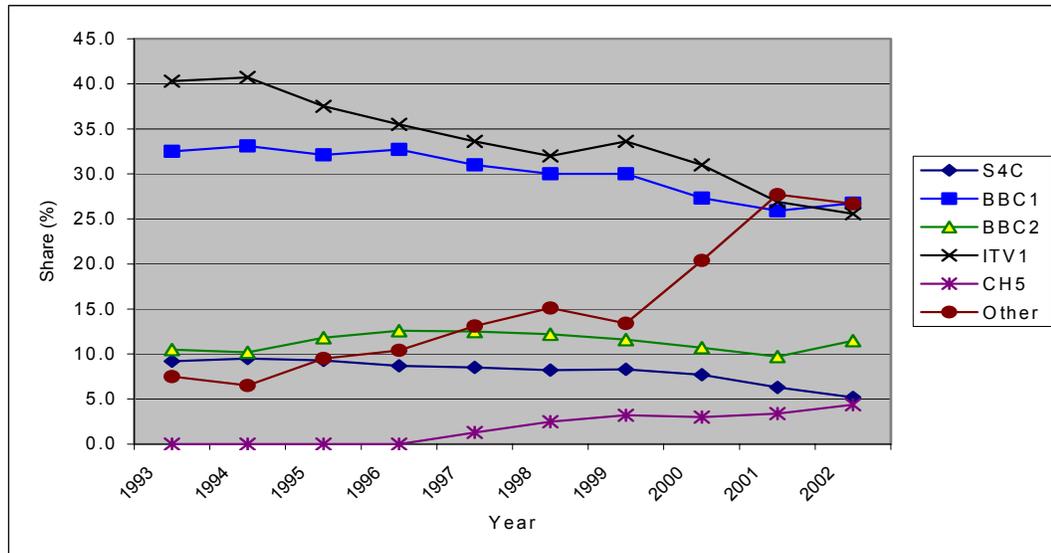
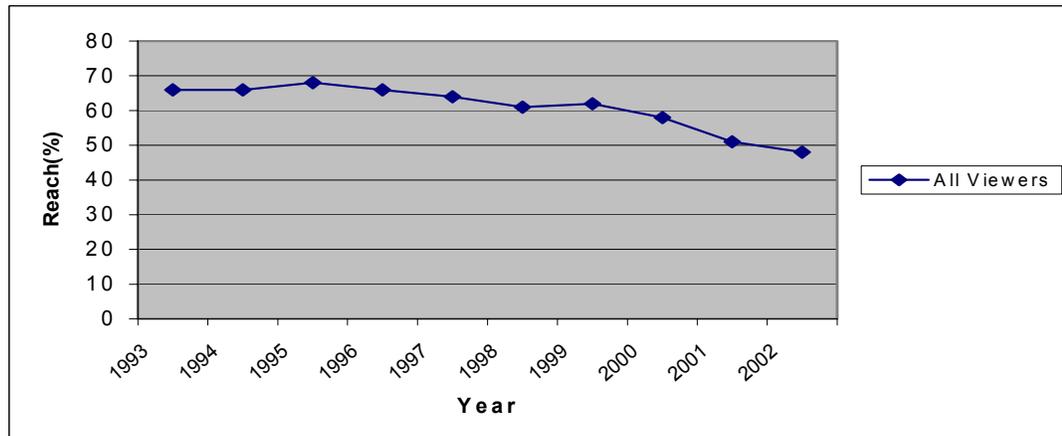


Figure 3 – S4C Reach All Viewers All Hours 1993-2002



2.6.4 We also believe that it is important to set these figures against the changing patterns of the main networks. Between 1996 and 2002, BBC1's share of viewing fell from 32.5% to 26.2%. ITV1's share of viewing fell from 35.1% to 24.1%. The share of viewing taken up by multi-channel television grew over this period from 10.1% to 22.0%. It is also notable that today, 61% of all households in Wales have access to multi-channel television¹². This compares to a penetration figure of 48% for the UK as a whole.

2.6.5 As the figures above indicate, the growth in multi-channel television has implications for every broadcaster. For S4C, it generates an additional pressure arising from the fact that viewers in multi-channel homes gain access to the full Channel 4 service as well as to S4C. Viewers are less likely to want to watch Channel 4 programmes on S4C's analogue service if they have been able to watch them a few days previously on Channel 4. S4C's share of all viewing will, therefore, have declined by more than would otherwise be the case because of the growing availability over recent years of Channel 4.

¹² BARB Panel data for December 2003

- 2.6.6 During the period since 1998, this particular measure of viewing will also have been affected by the growing number of repeats that S4C is now broadcasting during peak hours. During 1998 some 18% of the hours broadcast between 6.00pm and 10.30pm were made up of repeats. By 2001, this figure had increased to the point where repeats accounted for some 26% of the hours broadcast. This increase is partly a reflection of the fact that S4C's funding has remained consistent in real terms since 1998. However, it also reflects what has become S4C's established policy of offering additional opportunities to view its most popular programmes. We are in no doubt that this policy has been the right one for S4C in the circumstances that it finds itself. It reflects S4C's commitment towards ensuring the continuing high quality of the programmes it produces, even if that has the effect of reducing the number of programmes it is able to commission.
- 2.6.7 Across all *genres*, S4C's policy of narrative repeats is able to secure audiences for additional showings of programmes which compare favourably, and in some cases exceed, those generated for the first showing of programmes. This policy of building an audience for a programme over more than one broadcast, while an increasingly common feature of viewing on multi-channel television, can however have an impact on programme share in that spreading an audience for a programme over more than one showing is likely to have the effect of reducing the share figure from what it would be in the case of that same audience generated over a single showing. This is one further factor to be taken into account, therefore, in considering the decline in S4C's programme share over recent years.
- 2.6.8 Given these changes to its operating circumstances, S4C believes that the total number of viewers turning in to the service (reach) is becoming a better indicator than programme share of the extent to which it is succeeding in its aim to provide a wide-ranging programme service catering for the wide range of interests represented within the Welsh-speaking population. Since 2001, S4C's performance monitoring has paid particular attention to the reach of the Welsh programme block (i.e. excluding Channel 4's English programmes). It is encouraging that between 2001 and 2002 the reach figure for Welsh language programmes increased slightly from 712,000 to 728,000. It is notable that this figure is considerably higher than the total number of Welsh speakers in Wales. We are also encouraged that a further 120,000 viewers are measured by BARB as watching Welsh language programmes on S4C outside Wales. The BARB system is not set up to reflect the distribution of Welsh speakers outside Wales. S4C believes that it is reasonable to assume, therefore, that these figures significantly under-estimate the number of viewers watching S4C's programmes on the Sky platform outside Wales. S4C has begun to target certain key audiences such as rugby fans and music lovers with a view to increasing this audience still further in future.
- 2.6.9 Alongside this quantitative information on viewer numbers, S4C also places a high priority on qualitative research aimed at highlighting viewers' opinions on the service and their views as to its quality. Particularly in the case of a minority channel like S4C, this qualitative assessment of the range and quality which is on offer is an essential ingredient in determining whether the Channel is successfully discharging its remit.

- 2.6.10 S4C receives regular feedback on programmes, from an audience reaction panel of 1,500 viewers, which up until the end of 2003 was run by NOP. The appreciation indices generated by this panel are used to compare S4C's programme performance with that of other channels. Viewers are asked to score individual programmes according to their enjoyment, generating an appreciation index which is expressed as a score out of 100. Since 1999, this data has shown a consistent pattern of Welsh language S4C programmes having an appreciation index at or above the average across all channels for a majority of programme *genres*.
- 2.6.11 S4C has also conducted a series of large-scale qualitative research projects, including a major study by NOP in 1999 and a follow up conducted by Blinc in 2001, aimed at identifying different groups within S4C's audience with a view to providing an insight into the differing attitudes that these groups have towards S4C and the language more generally. This research highlighted the importance of S4C continuing to deliver a wide-ranging service reflecting the quite different needs of these groups. The research also emphasised that the audience felt that S4C was at a crossroads, and that the path taken now by the channel would be crucial. Whilst this research has pointed to some very different, and sometimes contradictory, expectations of S4C, it also indicated a very strong degree of underlying support for the Channel. The research suggested that there is no other genuinely national offering currently reaching such a wide cross-section of the Welsh speaking population.
- 2.6.12 Since 1999, S4C has also commissioned the market research company SPA to conduct longitudinal research, which aims to assess viewer attitudes towards S4C and the other main networks and to measure any changes in these attitudes over time. The overall appeal of S4C among Welsh speakers has remained stable throughout this period and S4C scores well compared to other channels on a wide range of key factors, such as catering for different tastes, showing programmes for all ages, giving viewers what they want, and showing a wide range of programme topics. Viewers have given a consistently very positive response to questions aimed at probing the extent to which S4C is seen as representative of Wales, with an average of 97% of Welsh speaking respondents saying that they believe that the Channel is important for the Welsh language. We are also encouraged that more than half of non Welsh-speaking respondents say that they enjoy watching at least one programme on S4C.
- 2.6.13 S4C will be making all of this research data available for inspection by the reviewers appointed by the Secretary of State.

2.7 **Maximising Commercial Income**

- 2.7.1 Our review has also sought to assess the extent to which S4C has made the most of the commercial opportunities available to it. S4C has carried commercials since its inception. The Channel has taken a creative but balanced approach to the enhanced commercial powers it was given under the 1996 Broadcasting Act. It has, for example, sought to maximise the commercial opportunities arising from the sale of spare digital capacity and from the technical expertise S4C has developed on the back of its core broadcasting business. S4C also played a prominent part in securing a digital terrestrial television multiplex licence for SDN.

- 2.7.2 During the 1990s, S4C's income from commercial airtime sales rose steadily reaching a peak of £10.2m in 2000. Since 2000, as Table 5 makes clear, this commercial income has been in decline. As well as the growth of multi-channel viewing a crucial factor influencing this decline has been the growth in the number of Welsh households able to receive Channel 4. S4C estimates that some 50-60% of its commercial income is currently derived from English language programmes. As the number of households able to receive Channel 4 in Wales increases, so the value of this contribution will fall. This is already reflected in the figures set out in Table 5. S4C's projection is that even if all other factors remain constant, the growth in Channel 4 viewing in Wales would cause a further steady decline in these figures as switch-off approaches.
- 2.7.3 An analysis conducted for this review does, however, indicate that S4C's commercial performance during this period has been better than the decline in viewing would suggest. During 2002, S4C generated advertising revenue some £2.4m greater than would have been the case had revenue followed the pattern of general viewing. During 2003 it is estimated that S4C will generate around £2.1m, greater than its 'natural' share. This incremental income is a reflection of decisions taken by S4C Masnachol, its commercial subsidiary, designed to maximise the commercial opportunities that surround S4C's distinctive programme schedule.

Table 5: Multi Channel Penetration in Wales v UK

Year End	Multi-channel Penetration (UK) Individuals	Multi-channel Penetration (Wales) Individuals	S4C Revenue
	%	%	£m
2000	45.1	49.2	10.2
2001	49.5	54.2	9.3
2002	52.0	63.4	9.0
2003 Sept.	55.4	68.9	7.6 (est)

Source: RSMB

- 2.7.4 We are encouraged that S4C Masnachol has been able to sustain a steady flow of sponsorship income over this recent period. Despite the fact that S4C's peak schedule consists mainly of Welsh-language programmes, which limits that which it is possible to achieve in this area S4C Masnachol has generated £1.2 million in sponsorship income since 2000. The target for 2004 is £260,000.
- 2.7.5 We are also encouraged by the significant amounts of additional revenues brought in by co-productions and programme sales. S4CI generates around £1.6m per annum through international programme sales. Programmes made in Wales and sold by S4CI are now shown in over 60 countries worldwide. S4CI generates around another £2m per annum in co-production finance for programmes to be broadcast on S4C. When set alongside programme sales revenue and expressed as a percentage of S4C's programme budget, this level of extra income compares very favourably with that achieved by other broadcasters.

2.7.6 Co-production finance from major broadcasters all over the world secures a number of benefits for S4C beyond simply being an additional source of inward investment into Wales. First of all co-productions are a means of providing landmark programmes for the schedule, with higher programme budget and higher production values than would be possible were other broadcasters not involved. S4C demonstrated this most recently in the three-part documentary co-produced with America's A&E Network entitled "*Yn ôl i'r Dyfodol*" (*Back to the Future*) which looked at the historical antecedents of supposedly modern inventions. The second benefit brought by co-productions is that Welsh independent producers are provided with the opportunity to develop and produce programmes which are expected to compete alongside the best in world television. During 2003, S4C co-produced programmes with broadcasters in every major territory around the world. These included Discovery and A&E (USA); Alliance Atlantis (Canada); BBC, RTE, TG4, Discovery Europe, History Channel (UK and Ireland); FR5 (France); ZDF (Germany); and ABC and SBS (Australia). We are very conscious, therefore, that S4C's co-production and programme sales activities represent an important international shop window for the television industry in Wales.

2.7.7 S4C used the enhanced commercial powers contained in the 1996 Broadcasting Act to take a one-third share in the digital terrestrial television (DTT) multiplex operator SDN Limited. SDN was awarded a multiplex licence in 1998. The other partners in SDN Ltd are ntl and United Business and Media. The strategy underpinning S4C's investment in this area was that SDN should become a long term source of income that would, in due course, help make up for the loss of income arising from S4C no longer carrying Channel 4 programmes. The collapse of ITV Digital, including the film channels which were carried on SDN capacity, represented a significant threat to these plans. In the wake of the collapse, SDN has had to significantly revise its plans and restructure its business. The launch of Freeview has, however, offered the prospect of a brighter future for the DTT platform. SDN capacity is now fully utilised. During 2004 it is due to begin repaying the loan funding made available by its joint owners. SDN is now back on track to offer a modest return and contribution to S4C's commissioning budget by the end of its ten year broadcasting licence. We are in no doubt that this represents a major step forward following the difficult and challenging period caused by the collapse of ITV Digital. We also believe this is a testament to the efforts of all those involved.

2.7.8 We believe that the above evidence points to S4C having made full use of the commercial opportunities available to it and that it has maximised the contribution that commercial activities can make to the public service fund. It is worth emphasising that there is a limit to that which S4C can be expected to achieve in this area without incurring unacceptable levels of commercial risk. Only a relatively small proportion of the programmes commissioned for its core service will, for example, have the potential to be exploited in international sales markets. There are also important constraints on the extent to which S4C can generate commercial income from other television related activities. It will continue to be S4C's policy to maximise those commercial opportunities that do exist. It will continue to be our policy to ensure that this should not interfere with its core remit. We will be monitoring closely the extent to which the move towards allowing independent producers greater freedom to exploit the commercial potential of their programmes could make it more difficult to optimise the contribution that commercial activities make in future.

2.8 Value for Money

2.8.1 We believe that this part of the Review highlights very clearly that S4C:

- has secured a significant expansion in the service it provides to viewers from within existing resources
- is keeping tight control of costs both on and off the screen
- should be wary of squeezing programme costs still further because of the damaging effect that could have on programme quality
- had made effective use of its commercial powers to add to the resources available to invest in programmes, without incurring undue risk

2.8.2 What this review of S4C's efficiency has also demonstrated is that S4C is now operating in a far more competitive environment where the audiences available for each of the main public service channels are being squeezed by the growth in multi-channel television. We are concerned about the fall in viewer numbers and we are concerned about the reduction in the income we can derive from the programmes provided by Channel 4. We are also concerned that the reduction in the overall commercial income that this will entail will in future make it even more difficult for S4C to compete successfully. This will also detract from the wider social benefits that the Welsh language service delivers.

2.8.3 The single most important challenge arising from the Government's proposals for switch-over surround S4C's ability to acquire an adequate level of high quality programmes to replace those to which S4C will no longer have access once its historic link with Channel 4 is broken. The experience of the past five years has also demonstrated that, as things stand, any significant expansion of the service provided outside the hours broadcast on analogue can only be achieved at the expense of the core programmes shown during peak hours. We do not believe that there is any realistic scope to reduce S4C's investment in its core service during peak. Indeed, if anything, the pressures will be to strengthen and enhance those programmes through increased investment. S4C will not be able to begin to deliver the sort of service that its remit will require post switchover unless some means is found to make up for the loss the sustaining service that Channel 4's programmes have provided ever since S4C was launched.

Chapter 3: Ensuring a Digital Presence

The first two sections of this report have focussed on aspects of S4C's business for which S4C is primarily responsible. The challenge of delivering a modernised television service fit for the 21st Century will primarily be the responsibility of S4C. Similarly, it will also be primarily a matter for S4C to ensure that it continues to deliver value for money from the resources made available to support the programme service. But there are also issues that will impinge on S4C's ability to compete successfully in the post switchover environment where S4C will be dependent on action by others. Some of these issues are considered in this third section of the report.

3.1 A New Partnership with the BBC

- 3.1.1 We have taken the opportunity provided by this review to consider the implications of the changes taking place in broadcasting for our relationship with the BBC. As has been the case since the launch of the channel, the BBC's programmes continue to be central to the success of S4C's programme service. The BBC-produced *Pobol y Cwm* is consistently S4C's most watched programme. Just as with the main networks, the daily soap strand provides a bedrock upon which the rest of the service can be built. The BBC also makes an essential contribution in news and current affairs. The BBC's nightly news bulletin represents a key aspect of the public service that S4C provides for Welsh speaking viewers, providing a unique mix of international and national news coverage through the medium of Welsh. The scope and authority that characterises the BBC's news coverage, in Welsh, just as in English, have also had an important bearing on the audience's perceptions of Welsh language television more generally.
- 3.1.2 S4C values its creative partnership with the BBC. We believe that it can only be to the benefit of Welsh speaking viewers that one of the world's major cultural organisations has made such a wide ranging and long term commitment to broadcasting through the medium of Welsh. We look forward to building on the current relationship over the years to come. However, if this relationship is to deliver the best possible service to Welsh speaking viewers, we believe it needs to be updated and revised to reflect the very different circumstances S4C will face following digital switchover. If the BBC is to continue to make the essential contribution to S4C's service on digital platforms that it has to date on S4C's analogue service, we believe its contribution needs to be extended and modernised so as to more closely reflect the essential ingredients that viewers will expect every public service broadcaster to deliver post switchover.
- 3.1.3 S4C believes, for example, that a relationship predicated fundamentally on the provision of a specified number of hours to be broadcast each week fails adequately to reflect broadcasting patterns in the multi-channel age. Additional opportunities to view the most popular programmes are now a natural element of the services every broadcaster provides. This has been reflected in the agreement between the two organisations with regard to *Pobol y Cwm* which now includes provision for an additional showing on S4C Digidol which falls outside the statutory 10 hours. Viewers are also likely to expect S4C to deliver a comprehensive news service that extends beyond a main evening bulletin, as is the norm on other channels. S4C hopes that it will be possible to harness the resources and expertise available within the BBC so as to respond to these demands.

3.1.4 We believe that the opportunity provided by the Review of the BBC should be harnessed to modernise the BBC's relationship with S4C. This could continue to be underpinned by a quantitative measure, but we believe it would be more in keeping with the original intentions behind the BBC's contribution to place a greater emphasis on the scale and range of the service that the BBC would in future undertake to provide. The objective should be to ensure that the BBC's contribution keeps pace with the growing demands placed on S4C and that the resources available to both broadcasters in Wales are utilised so as to achieve the best possible service for Welsh viewers.

3.2 Digital Roll-Out

3.2.1 Before S4C can get to grips with the programming issues surrounding switchover it also needs to address the technical issues arising from ensuring that S4C is available on all digital platforms when that point arrives and that it is sufficiently visible. Two issues stand out above all others. The first relates to the need to extend the digital terrestrial transmitter network. Because of its geography, Wales faces disproportionate difficulties (and consequential costs) in delivering television signals to the home. The current analogue transmitter network reaches 99% of Welsh homes but it is illustrative that the 211 transmitters this requires represent fully 20% of the UK total.

3.2.2 Currently only 9 of these Welsh transmitters have been converted to digital and less than 50% of the population of Wales is able to receive S4C via DTT.

3.2.3 Any extension to the digital transmitter network will clearly not be a matter for S4C acting in isolation. Whatever level of coverage is finally agreed upon, we believe the key principle is that S4C's services must be no less available than BBC Wales, ITV Wales and the rest of the public broadcasting networks. Furthermore, we believe that rural viewers should have the same choice of digital platforms as is available to viewers in urban areas.

3.2.4 However, the cost of converting analogue transmitters to digital is substantial. As things stand, these costs will be incurred by the transmission network operators and passed on, via the multiplex operators, to the broadcasters. So far, S4C has not been able to obtain Wales-specific and S4C - specific estimates of the cost of conversion of transmitters and relays. Since Multiplex A carries both public services and commercial services, its operator is unlikely to be able to recover the cost of full roll-out from its customers. This means that if S4C were to insist on full PSM (public service multiplex) roll-out in Wales, a high proportion of the total related costs would be passed on to S4C.

3.2.5 Like other broadcasters, S4C will expect to benefit from the cessation of analogue transmission costs at the point of switch-off. S4C currently has a contract with ntl broadcast to provide analogue transmission services. In the absence of dependable estimates of the S4C-specific costs of roll-out, it is impossible to tell whether there will be any net saving to S4C following switch-off. However, it is likely to take many years for any savings to be sufficient to make up for the additional costs which in the meantime will be incurred by being obliged to run analogue and digital services simultaneously. It should also be noted that since S4C has needed to contract with SDN for carriage on Multiplex A – so as to contribute appropriately to the cost of providing a regionally-differentiated service – SDN is commercially dependent on continuing receipt of contractual payments. S4C is unable to undertake to make

payments to a Multiplex operator – whether that be the operator of Multiplex A or any other Multiplex on which S4C might be positioned – over and above that which we currently make.

3.2.6 Unlike any other broadcasters, S4C is not in the position of having received the benefit of a financial adjustment to enable it to meet the additional costs that arise in respect of the various aspects of creating and delivering digital services. Other broadcasters have been granted financial support via a number of different mechanisms. These have included:

(a) increases in the licence fee

(b) reductions in licence payments paid to the Treasury

(c) changes in their funding mechanisms with a view to reducing contributions paid to third parties

(d) a digital dividend in respect of each digital viewer.

2.3.7 These adjustments have created, and will continue to create, substantial financial surpluses over and above previous base lines, enabling the broadcasters in question to identify commercial and other benefits to themselves of extending digital coverage. S4C is not in this position. We have already absorbed the substantial costs of digital transmission on DTT and satellite, as well as internal costs and some investments in digital programming, out of our existing resources. Given the need to sustain the quality of peak-hour programming in an increasingly competitive environment, we are firmly of the view that the viewing public should not be asked to suffer a diminution in the quality of the present programme service as a result of diversion of funds to digital transmission cost.

3.2.8 These complexities of S4C's position have been explained to the Chairman of the Digital Stakeholders Group and to the Government. Having embraced digital television enthusiastically from the outset, we do not wish now to be seen as an impediment to the achievement of the goals of the Digital Action Plan. Nevertheless, we have an over-riding duty to safeguard the interests of Welsh-speaking viewers, both in terms of ensuring the greatest possible availability of the publicly funded Welsh-language service and of maximising the investment we are able to make in the programming provided on that service.

3.2.9 S4C is already working alongside the other broadcasters to deliver the Government's Digital Action Plan for switchover. It will continue to contribute towards finding solutions that meet the particular requirements of Wales and Welsh broadcasters. We believe that it is essential to ensure that what are likely to be the proportionally more expensive costs of digital roll-out in Wales should not be at the expense of the relatively small Welsh language programme budget.

3.3 Due Prominence

3.3.1 As well as making sure that S4C is available on all platforms, ensuring a digital presence also requires that the Channel is readily visible and accessible to viewers. Whatever their mode of carriage, therefore, it is essential that S4C's services are accorded due prominence on the electronic programme guides that increasingly

govern viewing patterns. The Government has made it clear that it believes that public service broadcasting should remain at the heart of broadcasting in the UK. It is essential to ensure that EPGs, which are the gateway to the programme market place, give the PSB services – in their correct local, regional and national forms – primary positions, if this objective is to be attained. This means that in Wales, S4C, rather than Channel 4, is displayed as the ‘fourth’ channel on all digital platforms.

3.3.2 There is a particular issue in respect of the way in which niche channels are grouped on the Electronic Programmes Guides. One key consequence is that children are not offered a Welsh-language option when they turn to the ‘Kids Programmes’ section of the EPG. This is because the only Welsh-language children’s programmes available are those on S4C. Exception must be made to ensure that the very particular circumstances involved here allow for S4C’s children’s Brand *Planed Plant* (or any successor) to be offered within the Kids’ EPG on all platforms

3.3.3 S4C as a service, and children’s programmes in Welsh specifically, must be recognised as having an unique rôle in the overall public service offering and given appropriate positions on the Electronic Programmes Guides.

3.4 Independent Producers in Wales

3.4.1 S4C’s policy is to commission virtually the entirety of its output – with the exception of that which it receives from the BBC – from external producers. We were pleased to be able to reaffirm this policy during 2003. We also welcome the action that is being taken jointly with TAC to improve communication within the industry and to ensure that producers are as well informed as possible about S4C’s broader programme strategy. The steady flow of information from commissioning editors to programme makers is essential in ensuring that the contribution made by every programme within our schedule is maximised and in securing the maximum impact from the programme service as a whole.

3.4.2 In an increasingly competitive and demanding broadcasting environment, S4C’s success in future is likely to be even more closely linked to the creative and economic success of the companies that supply it. We are anxious to do everything within our power, therefore, to strengthen the audio-visual sector as a whole. This includes encouraging producers to harness opportunities offered by new media. S4C will also continue to support initiatives designed to promote greater commissioning from the main UK networks from producers based in Wales and increased sales in international markets.

3.4.3 S4C has made a long-standing commitment towards the development of the skills base of what has become a largely freelance workforce through the training body Cyfle. If the contribution made by the sector is to be maximised there will need to be a still greater focus on this area, with the contribution of Skillset Cymru likely to be critical. S4C has been active in its support for the steps that have led to Skillset achieving, firstly, trailblazer and, secondly, pathfinder status as a sector skills council. Policies designed to incentivise participation in industry training have been implemented and we look forward to contributing to the development of industry-wide policies favourable to training and skills development as envisaged by the Communications Act 2003.

3.4.4 S4C's success in future will continue to be linked to the success of the independent sector. With its solid foundation in the film and television business, Wales's audio-visual sector more generally offers important opportunities for economic growth. Because of the thriving production centres that have emerged in different parts of Wales – partly as a consequence of S4C's commissioning strategy – the potential exists to deliver this growth throughout Wales. This growth will, however, require concerted action from each of the main economic development agencies, including the WDA, Sgrin, and ELWa.

3.5 Ofcom Regulation

3.5.1 The task of regulating S4C is not like that of any other broadcasting organisation. S4C is not a major commercial force able to wield enormous economic power that poses a competitive threat to the major commercial broadcasters. We are not, however, aware of any other concerns that S4C is operating in areas where it should not. Indeed, the consistent pressure from viewers is that S4C should expand the service it provides and make greater use of the capacity now available to it. Arguably, the greatest regulatory issues facing S4C surround the extent to which the more general regulatory framework (including, but not restricted to, the prominence accorded to the service on EPGs) is appropriate for a minority of public service broadcasters in an increasingly market driven broadcasting environment.

3.5.2 The task of regulating S4C is primarily a cultural one. It centres on the need to ensure that the only Welsh language television channel keeps pace with the changing expectations of its audience. As well as ensuring effective use of public funds, the key challenge facing the Authority is that of making sure that S4C not only delivers on its remit, but also maximises the contribution it makes to the social and cultural life of Wales.

3.5.3 S4C welcomes the creation of the unified communications regulator Ofcom. We look forward to working alongside the new regulator, particularly with regard to those aspects of its work which will impact most strongly on the future shape and direction of public service television. S4C believes that its unique perspective on public broadcasting has a valuable contribution to make to the wider UK debate on this issue. We do, however, believe, that whilst the communications industry as a whole will benefit from the establishment of a unified regulator, Welsh language television benefits from being overseen by an independent broadcasting authority based in Wales.

3.5.4 S4C is one of the most prominent manifestations of the cultural diversity of UK broadcasting. The fact that it is self-regulating in certain key areas is an important means by which that diversity and plurality is safeguarded. Regulation by an independent broadcasting authority has served S4C well during its first twenty two years. We believe that it also offers the most effective means of representing the interests of the Channel and its viewers in the new multi-channel era.

Chapter 4: A Wide Range of Social Benefits

At its best, public service broadcasting moves beyond simply providing programmes. It does more than inform, educate and entertain. It also enriches and leaves its mark on the community it serves. During its first twenty years, S4C has shown that this is as much a feature of public service broadcasting in Welsh as it is of broadcasting in English. The final part of this review takes stock of the wider range of economic, social and cultural benefits derived from S4C's existing programme service. We believe that this audit underlines the importance of ensuring that S4C can continue to compete successfully in the period following analogue switch-off in order to safeguard and build upon these wider benefits. Our ambition to modernise and strengthen the Channel are intended to ensure that S4C can deliver the still greater range of benefits associated with digital television in the future.

4.1 Economic Development

4.1.1 S4C is very conscious of the economic benefits that derive from its programme making. The emphasis that S4C has, since its inception, placed on home grown programming serves to maximise these economic benefits. During 2002, 97% of S4C's programme budget was spent in Wales. From its very early days, S4C made a commitment to commission programmes from independent producers. Over the past two decades the Welsh independent production sector has grown to the point where it is the largest outside the south east. A report in 2001 from the Wales Economic Research Unit¹³ calculated that S4C's programme investment alone supported some 2,000 direct and indirect jobs in Wales.

4.1.2 The other important benefit derived from S4C's policy of being a commissioner broadcaster is that these jobs are distributed all over Wales. S4C's headquarters are in Cardiff but its commissioning policy sustains important production centres in North and West Wales. S4C attaches particular importance to the fact that it has become a source of well-paid and sustainable employment opportunities in the economically disadvantaged Welsh speaking areas, particularly in North West Wales.

4.1.3 In addition to its own investment in programmes, S4C also acts as a lever for inward investment into Wales. Every year S4C International's role as broker of co-productions secures, as we have seen, some £2 million of additional investment into the Welsh production sector. The Welsh animation industry is perhaps the best example of an industry sector that has been able to secure international renown as well economic success as a direct result of S4C's original investment. A new 26 part series of *Fireman Sam*, now jointly owned by S4C International and HIT plc, and being produced by Siriol, is only the latest example of our investment in this area.

4.1.4 S4C's investment in programmes, alongside that of the other Welsh broadcasters, clearly makes an important contribution to the Welsh economy. S4C believes that, with the right sort of support, Wales' strength in the creative industries could also provide a launch pad for the sort of knowledge based companies that are likely to become economically still more important in future. S4C stands ready to offer whatever support it can to the broader government efforts to boost the economic significance of the creative sector, to promote possible links with the development of new media companies and to strengthen Wales' skill base.

¹³ Economy and Culture: S4C in Wales Present and Potential Impacts; Wales Economic Research Unit, June 2001

4.2 Education

- 4.2.1 From the outset, S4C's Welsh language output has been recognised as having a significant educational value, which is not restricted to the programmes intended specifically for schools. S4C's children's programmes, in particular, provide a valuable resource that reinforces the efforts of schools, teachers and parents to introduce children to the Welsh language. Television can play an especially important role for the growing number of children who are learning the language but who live in non-Welsh speaking homes. The emphasis placed on entertainment communicates a message that the language can be fun. Simple songs and stories - a staple of the *Planed Plant Bach* nursery strand – are a particularly effective means of communicating the language to the pre-school age group.
- 4.2.3 The creation and regular provision of programming for children in Welsh therefore continues to be a high priority for S4C. This is reflected in the comparatively very high proportion of S4C's programming spend which is accounted for by children's programming – approximately 11% of the total programme budget. The bulk of this expenditure is directed towards home produced programmes with lively presenters who become familiar to the younger audience. From its very earliest days, S4C has also been aware of the powerful rôle that animated series can play as part of the children's offering and as a source of vital images that can capture young imaginations. *Superted* and *Sam Tân* (Fireman Sam) have subsequently become known throughout the world. So, perhaps, less obviously, has *Sali Mali*, based on the children's books by Mary Lloyd Vaughan, which have delighted young readers (and their appreciative parents) for three generations.
- 4.2.4 An additional ingredient crucial to the success of S4C's children's programmes is that the audience is also provided with opportunities to interact with presenters off screen. Presenters of children's programmes and popular characters from animated series form the principal elements of S4C's public events strategy. Live performances at the S4C stand at the big summer festivals in Wales – the Urdd and National Eisteddfodau and the Royal Welsh Show - are highly appreciated by parents and children, as is the summer tour to centres throughout Wales. S4C's Christmas Grotto tour, now extended in partnership with the Welsh Language Board, is often the only Welsh language Christmas event of its kind available to Welsh-speaking children.
- 4.2.5 The success of Welsh medium education, particularly in restoring the language to young people from non-Welsh speaking family backgrounds, has created a particular challenge for S4C (and for others concerned with the support and development of the language) in the case of teenage viewers. It is recognised that the teen years are those when young people seek out their own cultural norms, often rejecting those of their parents and teachers. The accessibility of international youth culture in all its forms threatens to make that which is home-grown appear parochial or old-fashioned. Television has a unique responsibility, as well as a unique opportunity, to try and cater for these demanding young viewers. S4C has enjoyed important successes with the youth chat and music show *i dot*, the slapstick comedy for younger teenagers *Hotel Eddie* and the series based in a South Wales bilingual comprehensive, *Pam Fi Duw?*. S4C's main difficulty has been in sustaining success over a long enough period and with enough regularity to maintain credibility with this most demanding and challenging group of viewers.

4.2.6 S4C's programmes also make an important contribution in support of adults learning Welsh. The programme service taken as a whole provides an important source of exposure to the language. For many learners it will be the only contact they have with the language outside the classroom. The Welsh and English subtitles associated with S4C's general programming offer a further important resource for learners who have reached a certain level of proficiency. By the end of 2004, 80% of S4C's programmes will carry English subtitles. S4C Digital also offers a half-hour slot every weekday featuring programmes which provide more direct tuition for those learning the language. In recent years, S4C has also sought to popularise and draw attention to the adult learning sector through more broadly-based entertainment series with a particular focus on learners, such as *Welsh in a Week*, and *Cariad@Iaith*.

4.3 Language Policy

4.3.1 The establishment of a Welsh language television channel reflected and acted in support of a broader Government commitment towards supporting and promoting the Welsh language. Twenty-one years later the range of policy interventions by government and the level of public investment in measures to support the language have become far greater. The intervening period saw a strengthening of the position of the language in schools and the introduction of a Welsh Language Act in 1993 has influenced all other aspects of public life. It has also seen the new Welsh Assembly Government make clear its commitment to the language through the publication of *Iaith Pawb*¹⁴, a national plan with the aim of making Wales a 'truly bilingual' nation.

4.3.2 Today, therefore, television has an even more important rôle to play in supporting and reinforcing government support for the language across a range of policy areas. This is partly a matter of what television says about the status of the language. At a very basic level, the existence of a Welsh language programme service reflects a broader commitment to promoting the use of the language in every aspect of people's lives. Because it comes into people's living rooms, television also plays a part in normalising use of the language outside the traditionally Welsh speaking areas. The existence of a Welsh language television channel also conveys an important message about the contemporary relevance of the language and the intention that it should be an integral part of life in Wales today and in the future.

4.4 Arts and Culture

4.4.1 Television is an important cultural force in any language. But, in the case of a minority language like Welsh, which has to coexist with the most culturally powerful language in the world, the cultural rôle played by television is perhaps greater still. S4C is an important platform for Welsh talent right across the spectrum. It provides opportunities for actors, singers and writers to develop their talents without having to leave Wales and without necessarily having to work in English in order to progress their careers. S4C is an important source of commissions for original work. Its commitment towards the arts extends from the traditional (including the Eisteddfodau) to the cutting edge.

¹⁴ *Iaith Pawb* – A National Action Plan for a Bilingual Wales, Welsh Assembly Government 2003

4.4.2 However, what is understood as ‘the arts’ does not necessarily have the same narrow meaning in Wales and in Welsh as it does in the rest of the UK. There is a Welsh phrase – ‘y pethe’ – which is traditionally applied to cultural pursuits in the Welsh language. It is envisaged that participation in these is by all classes and occupations. A concern for ‘y pethe’ has been one of the defining characteristics of S4C’s programme service since its earliest days with a keen awareness also of the need to reflect changes in the cultural environment. The channel continues to make a significant and wide ranging contribution across a range of cultural forms. The most notable include:

(i) **Drama** -

The regular provision of original drama programmes of variety and quality is as important a feature of S4C’s Welsh language service as it is of the public services the BBC and others provide to viewers in English. Drama appeals to viewers of all ages and all backgrounds. It entertains, amuses and can also challenge and discomfort. For a minority language, drama can validate the culture it reflects by proving it is possible for that culture to encompass the full range of life’s experiences.

The range of drama provided, considering the population base which sustains the language, is striking. It ranges from the originality and flair of writers such as Siwan Jones with *Tair Chwaer*, Delyth Jones with *Fondue Rhyw a Deinosors*, Geraint Jones with *Arachnid* to the accomplished and well-travelled Detective Inspector Bain in *Heliwr/A Mind to Kill*, the period saga *Y Palmant Aur* and adaptations of literary classics, such as *Y Wisg Sidan*, *Lleifior* and *Treflan*. Recent history has been tackled head on with Gareth Miles’s personal interpretation of the politics of Wales in *Llafur Cariad*, while the feminine perspective has been well to the fore in the women’s rugby saga, *Amdani*. The importance of a cornerstone soap opera has, in addition, been recognised from the outset, with the BBC’s already established *Pobol y Cwm* selected to play that role. Mirroring the popularity of soaps on other channels, it continues to be S4C’s most watched programme. The publication of this report follows closely on the heels of S4C’s decision that the programme should revert to a regular pattern of scheduling at 8.00pm every week night.

As the largest commissioner of original drama, S4C also plays an important secondary role in sustaining Welsh writers and actors economically, ensuring it is possible for the theatre, in particular, to draw on a far wider pool of talent than might otherwise have been the case. Indeed, the quality of Welsh acting is something of which all concerned can be fiercely proud. Welsh speaking actors such as Ioan Gruffudd, Matthew Rhys and Rhys Ifans, who began their careers on S4C productions, have gone on to establish themselves as international stars of film and stage.

S4C also has a primary rôle in developing writing talent through writing workshops and detailed feedback on scripts. A Head of Talent Development has been appointed to enhance this aspect of S4C’s work.

The quality of drama on S4C is widely recognised. The policy in general has been to provide at least one original series every week of the year – usually on a Sunday evening – and to supplement this with a mid-week fiction series (either drama or comedy) of shorter 30 minute episodes. Financial constraints, however, temper this aspiration with archive repeats increasingly playing their part in sustaining the evening schedule.

(ii) **National Events -**

Another area where the Channel consistently fulfils a unique need is in the provision of comprehensive coverage of major events in the Welsh calendar. The contribution is a dual one. Those unable to travel to these events can participate through television. At the same time the additional visibility and publicity serves to swell attendance. In many instances, the contribution both in cash – through the purchase of television rights – and in kind, through the provision of lighting, staging, video screens and other facilities necessary for television – not only enhances the quality of the event but in many cases is a crucial component in enabling it to be successfully staged each year. The events with which S4C has a particularly successful relationship include:

National Eisteddfod of Wales
Urdd National Eisteddfod
Royal Welsh Agricultural Show
Gŵyl Gerdd Dant Cymru (Penillion singing)
Sesiwn Fawr Dolgellau (Folk Festival)
Bryn Terfel's Faenol Festival
Llangollen International Eisteddfod (in addition to the main event, in the past S4C has been a key partner in enabling visits by international artists including Luciano Pavarotti).

(iii) **Film -**

It is no exaggeration to say that during the past twenty-one years, S4C has been responsible for the entirety of Welsh-language feature film output. S4C films in the 1980's ranged from the would-be historic epic, *Owain Glyndwr* to the two contrasting prize winning successes, *Coming Up Roses* and *Boy Soldier*. The 1990's saw two Oscar nominations in the Best Foreign Language Film Category for *Hedd Wyn* and *Solomon and Gaenor*. International recognition, on a slightly lesser scale, has also been accorded to films such as *Un Nos Ola Leuad*, *Gadael Lenin*, *Y Mapiwr*, *Oed Yr Addewid*, *Eldra*, and *Cameleon* while new life has been given to classics of Welsh literature such as Kate Roberts's *Te yn y Grug* in *Y Mynydd Grug* and T Llew Jones's children's adventures *Dirgelwch yr Ogof* and *Tân ar y Comin*.

In recent years S4C has also been able to harness its worldwide reputation for animation to produce ambitious animated films. The feature-length animated life of Jesus, *Gwr y Gwyrthiau/The Miracle Maker* has been seen in cinemas and on television by some 40 million people including two peak time showings on the American ABC network. It has been sold to a further 35 countries and translated into 30 different languages. S4C's animation strategy achieved one of its ultimate ambitions in the year of S4C's twenty-first birthday with the theatrical presentation of the 80 minute animated version of the early Welsh epic tales, the *Mabinogi*.

Most recently the power of film has been used to support another Welsh tradition in Marc Evans's ambitious interpretation of the power and range of Welsh-language poetry from the sixth century to the present day in *Dal: Yma Nawr*. This project resulted in S4C's first partnership with ACCAC (the Welsh Curriculum Authority) through which DVD copies of the film have been produced and made available to all schools studying Welsh GCSE and A Level.

S4C is anxious to maintain its commitment to Welsh films. The Channel does, however, have to strike a balance between its aspiration to create high points in the form of feature films and its need for a more regular supply of popular and challenging television drama.

(iv) **Music** -

S4C has always had a long-standing commitment to the breadth of the Welsh musical tradition, from opera to pop. S4C's long-standing relationships with the BBC National Orchestra of Wales and, more recently, with the Welsh National Opera, have served to provide a platform for musical excellence in the classical tradition.

It also provides important opportunities for young singers and musicians. S4C's relationship with the National Youth (Urdd) Eisteddfod is now well established. This remains the largest youth festival in Europe and the television coverage of the finalists is an important element in reinforcing the event's visibility and popularity. In recent years, S4C has extended its partnership with Urdd Gobaith Cymru to include televising the contest for the Bryn Terfel Scholarship for the best young performer of the year.

The late 80's/early 90's music video series *Fideo 9* provided an important early platform for many groups and is often credited with having led to the explosion of the Welsh pop scene later in the 1990's. The strong tradition of Welsh language pop music, which flourished in earlier decades, has tended not so much to fade as to fragment into different niches for different tastes, such that the once popular all encompassing music shows are no longer able to accommodate today's extremes of Country and Western and 'garage'. Today's bands can, however, hope for an airing on *i dot* or on the music show aimed at schoolchildren, *Popty*.

- 4.4.3 S4C is also a place where people can talk about the arts. The long running weekly arts strand provides a regular opportunity, in peak, to highlight and draw attention to the best in contemporary art and culture. S4C has also harnessed the greater capacity available on digital platforms to provide extended opportunities for debate and criticism. In 2002, for example, the Channel celebrated the birthday of R S Thomas using a combination of analogue and digital channels to provide a whole evening's celebration of the work of this firmly Welsh-speaking poet whose English language work is internationally acclaimed. This broader commitment to the arts serves to reinforce the efforts of the Welsh Arts Council and others to promote and strengthen the arts in Wales still further.
- 4.4.4 At its most creative and innovative, television goes beyond simply opening a window on the best of Welsh talent and reflecting Welsh culture. Programmes such as *Côr Cymru*, *WawFfactor* and the youth soap *Rownd a Rownd* also help make sure that the tradition of performing and competing is not restricted to traditional settings such as those provided by Eisteddfodau, important though they are. They also highlight the power of television to underline the contemporary relevance of the language in people's lives. This is a crucial contribution that S4C is anxious to strengthen still further in the coming years.

4.5 Informed Citizens

- 4.5.1 During the early years of the National Assembly for Wales, S4C believes that its programmes have a crucial contribution to make in promoting wider understanding of Wales's new democratic institutions. The paucity of print coverage of the activities of the National Assembly in the national press only serves to reaffirm the importance of this rôle. S4C's commitment to providing a nightly half-hour news bulletin during peak – a combination of local and international news made possible by our unique partnership with the BBC in Wales – plays a crucial role in this regard. So too does the comprehensive coverage provided of the National Assembly's affairs on S4C2 and *Manifesto*. S4C has also maintained its commitment to a weekly current affairs slot during peak hours. Viewers are, therefore provided with regular opportunities to gain a better understanding of the issues behind the news in Wales and further afield. On several occasions, Welsh language journalists working on the two current affairs strands, *Y Byd ar Bedwar* (HTV) and *Taro Naw* (BBC) have been the first to draw public attention to important matters of public interest. One of the most significant recent examples was coverage of Ann Clwyd MP's visit to the Kurdish areas of Iraq shortly before the war.
- 4.5.2 S4C's factual and documentary output has, over the years, made a rich and varied contribution towards shining a light on those parts of Wales that lie outside the corridors of power. The importance and richness of rural life – where Welsh remains the everyday language – is strongly reflected through programmes such as *Cefn Gwlad* and *Ffermio*. S4C has consistently offered documentary series illuminating different aspects of Welsh history, including two substantial celebrations of 20th Century history in *Cymru 2000* and *Canrif y Werin*. Productions such as the drama/documentary *Brad yn y Bae (Betrayal in the Bay)* served to underline that television can also find new and innovative ways of illuminating important but often little understood episodes of our recent past.

4.6 Cultural Identity

- 4.6.1 Welsh language television also plays a role in supporting efforts to promote Welsh culture outside Wales. S4C's animation success has given Welsh artists an international platform from the very early days of the Channel. S4C's Oscar nominations for the films *Hedd Wyn* and *Solomon a Gaenor* brought similar recognition for Welsh actors, directors and other creative talent. Through S4C International, S4C's programme sales arm, S4C programmes have been broadcast in upwards of 60 countries overseas. S4C is also a regular co-production partner with a range of international broadcasters including Canada's Alliance Atlantis, A&E and Discovery from the United States, France 5 and the Australian state broadcaster ABC.
- 4.6.2 We are just beginning to discover some of the benefits derived from the availability of the S4C service throughout the UK on digital satellite. We know that this is a service appreciated by expatriate Welsh speakers. BARB figures (even though the system is not designed to track Welsh speakers outside Wales) indicate that more than 100,000 people from outside Wales tune into our Welsh programmes every week. As viewers become aware of the service S4C hopes to be able to introduce still greater numbers of viewers to distinctive events such as Llangollen and the national eisteddfodau and over time to a wider variety of what Wales and the language has to offer.

4.6.3 The cultural identity that S4C aims to promulgate is not restricted to a narrow interpretation of culture. S4C's sporting coverage has already demonstrated what might be achieved. S4C shares the rights to Welsh Club Rugby with BBC Wales and the S4C 5:30 pm live Saturday match has become an appointment to view for rugby fans throughout Wales whether or not they speak Welsh. The Channel was ahead of its time in bringing viewers the best of Italian, Spanish and German football in an authoritative and well edited weekly roundup in *Sgorio*, which has continued unbroken from 1986 to the present day. This is one of those programmes which has been a key means of attracting non-Welsh speaking viewers to the Channel. Over time, S4C's aim would be to secure a similar response to this sort of distinctive offering from viewers outside Wales.

4.7 Religion

4.7.1 Though religious observance cannot claim to enjoy the same high place in the lives of Welsh people as it enjoyed in the past, it is nevertheless of central importance to many Welsh-speakers, with a particular loyalty being felt towards the non conformist tradition. The traditional love of hymn singing has given comfort and inspiration to several generations of Welsh radio listeners and television viewers. The weekly programme *Dechrau Canu Dechrau Canmol*, continues to be – in a somewhat updated form – a regular appointment to view on Sunday evenings for many thousands of viewers. The main religious festivals are generally celebrated with televised acts of worship while a quite wide interest in religious history and debate has been reflected in numerous documentary series over the years. In most recent times, a broader-based interpretation of religion in Wales has led to two striking series, one following a well known Welsh speaking Moslem in his observance, with his family, of Ramadan, while another portrayed Welsh-speaking followers of religions other than Christianity, from Judaism to Hinduism. Both served as reminders that the Welsh speaking community is more diverse today than when S4C was established.

4.7.2 Possibly the single most striking contribution S4C has made to religion was the acclaimed film of the life of Jesus, *Gwr y Gwyrthiau / The Miracle Maker*, which has been used to support the work of churches and Sunday schools in Wales and throughout the world.

4.8 A Commitment to Added Value

4.8.1 These wider benefits derived from the programme service are partly to do with the power of television. But they are also crucially dependent on the decisions that S4C makes concerning the sort of programmes that it broadcasts. Against a backdrop of some 200 English language channels, S4C's Welsh language programmes confer some public benefit simply because they are in Welsh. However, certain sorts of programmes can achieve a much deeper impact and point to the important decisions which lie behind S4C's commissioning process. S4C is, for example, only able to support the work going on in schools to introduce the language to young children because original children's productions are and always have been a prominent feature in the schedule. Similarly, S4C is only able to provide a forum to discuss the arts because it has maintained its commitment to arts programming.

- 4.8.2 We need to understand the added value which might derive from every aspect of the investment that we make in programmes and marketing. This means thinking in far more detail from the very moment a good idea comes in as to what it is in total that we can do with that idea. Does it merit a book? Should it go on DVD? How much value would there be from an interactive website? Is there some local activity that could be generated to coincide with the programme? How will it fit in with our marketing plans for the year? Are we extracting the greatest possible cultural value from our different activities, such as support for pop groups and other activities for children and young people?
- 4.8.3 The achievement of such maximum impact may often be a matter of identifying the appropriate partner or partners who have parallel objectives to our own. Organisational possessiveness and lethargy (our own and that of others) may initially stand in the way. They must not do so if we are to succeed in this ambition.
- 4.8.4 **The broader importance S4C attaches to certain key programme *genres* is a reflection of the importance of the wider benefits certain programmes deliver. As broadcasting become more competitive there is likely to be a growing pressure on S4C to place a greater emphasis on those programmes likely to generate the best possible audiences. These will not always be the programmes associated with generating wider social benefits. We are conscious that this ability of programmes to deliver public benefits will always be linked to the ability of those programmes to attract an audience. The continuing challenge for the Channel will be to harness the creative and performing talent available to it in a manner which maximises both.**

Chapter 5: Conclusions

- 5.1 This review was intended to generate a body of evidence that could be taken into account in the independent review of S4C that the S4C Authority asked the Secretary of State for Culture, Media and Sport to commission. Its content reflects the terms of reference of that review. We believe that it provides clear evidence as to the efficiency with which S4C is doing all that it can to help itself. It begins to map out a strategic vision and of the sorts of changes S4C will need to make if it is to succeed in its aim of becoming a modernised service fit for the 21st Century. We hope that the review also serves as a reminder of the wider benefits Wales derives from our activities and why it is important that these should be maintained and expanded.
- 5.2 The review has identified what we believe to be the issues that will be critical to S4C's continuing success. Those pivotal issues are:
- (i) digital terrestrial roll-out for S4C to the same extent as other public service channels, without negative impact on the programme budget
 - (ii) an appropriate level of prominence for S4C's services, including the children's programmes strand, on all Electronic Programme Guides in use in Wales
 - (iii) additional resources to improve the quality of programmes
 - (iv) additional resources to allow expansion of the range and diversity of the Welsh-language television service
 - (v) additional resources to allow the development of interactive services and exploitation of other opportunities afforded by new technology, including broadband
 - (vi) the establishment of effective working partnerships which can realistically and consistently function so as to create substantial additional value from S4C's activities.
- 5.3 The vision set out in this review relates to that which we believe S4C will need to achieve by the time of analogue switch-off. Although no date for this has yet been announced, this is likely to be between five and ten years from now. As such, whilst we have highlighted the nature of the changes we believe S4C will need to make, we have not at this point prepared a detailed, costed programme. This is a separate task that will be taken forward with the Department of Culture, Media and Sport and the other partner organisations that are likely to have a part to play.
- 5.4 The review has served to reaffirm our view as to the importance of the task with which we and all those who work alongside S4C are engaged. Welsh speakers live in a global environment; as such Welsh-speaking viewers demand the news, international affairs, music and youth culture that forms part of the global economy. But they also live in small communities, communities whose lives can be reinforced and enhanced through the power of television. S4C therefore needs to be professional and international, indigenous and local. To be at its most successful, it should be all of these simultaneously. This is why it is not enough for our viewers to diet on dubbed programming; viewers need to share their own stories.

5.5 S4C, as a public service broadcaster that is mindful of its remit and assiduous in trying to achieve that remit, must try to meet the global, local and individual needs of its viewers. It has done so successfully in the past, but now faces an even more fast-changing, competitive and commercialised broadcasting environment. S4C wishes to remain the trusted channel of choice for Welsh speakers everywhere. It cannot afford to be diminished at the very time when new technologies offer us all so much opportunity for information, active citizenship and creativity.