



Response to the Green Paper on BBC Charter Review

October 2015

Summary

- The independent TV production sector in Wales is a thriving sector of diverse companies producing a range of content from bases all around the nation
- The BBC is in the words of Ofcom the ‘cornerstone of PSB’ – it provides creative competition and enables the indie sector to grow and use the Licence Fee investment to develop ideas for other broadcasters, thus spreading the benefits of high-quality and innovative TV across not just other PSBs but also the purely commercial cable and satellite channels
- We therefore do not feel that the BBC is a threat to other commercial broadcasters
- However the BBC Studios plan could destabilise an already thriving production sector by using its size and scale to distort the commissioning market
- We believe the BBC should offer universality in all the three respects outlined in the Green Paper
- The BBC’s funding should be inflation-linked, at a level that enables it to continue to invest in the creative industries and drive innovation and growth in this important sector of the UK economy
- The Licence Fee remains largely fit for purpose, although we do not reject the household levy proposal
- The governance needs to be reformed, and we support the idea of a unitary board plus external regulation via Ofcom
- The future of the Welsh language broadcaster S4C, a vital enabler for the Welsh creative sector and the Welsh language, must be guaranteed through specific protected funding, and regulation and governance that is not related specifically to the BBC. S4C must also remain accessible to people of all age groups and walks of life, by being broadcast via terrestrial, cable and satellite platforms as well as being available online

1 Introduction

1.1 About TAC

- 1.1.1 Teledwyr Annibynnol Cymru (TAC) is the trade association representing independent TV production companies in Wales. There are around 55 Welsh companies producing a wide range of Television and other content in genres that include children's, drama, comedy, factual, documentary, animation, entertainment, music and sport.
- 1.1.2 TAC members make content for several UK network broadcasters and are involved in selling programmes and formats abroad as well as international co-productions. Members also make content for the Wales-based broadcasters such as BBC Wales and S4C, the latter of which, as a publisher–broadcaster, works very closely with our sector.
- 1.1.3 TAC members' programmes have been sold to territories around the world, including:
- Swansea-based Telegop's **Wallis Simpson: The Secret Letters** has sold worldwide via the distributor DRG. Territories include Hong Kong, Israel, Denmark, Australia, New Zealand, Canada, Taiwan, Belgium, China, Germany, France and the US
 - Boomerang (Cardiff)'s Channel 4 **Posh Pawn** Documentary Series has been sold into: Australia, Denmark, Finland, Latin America, New Zealand, Norway, and Sweden
 - Cardiff-based Indus Films' documentary series **Mekong River with Sue Perkins** was produced for BBC2 and sold into: Germany, Finland, Denmark, Norway, Sweden, Italy, New Zealand, and Africa
 - Caernarfon-based Cwmni Da's S4C production **Farm Factor is licensed and produced in Denmark, Sweden and China**
 - Rondo Media (based in Cardiff/Caernarfon/Menai Bridge) has sold its award-winning BBC 1 drama series, **The Indian Doctor** to territories including: USA, Canada, Australia, New Zealand, Israel, China, Mexico and many European countries
- 1.1.4 The independent sector plays a critical part in the development of talent and skills which must be maintained to meet the growing demand for such skills and talent. TAC works closely with Creative Skillset Wales in this key priority area.

2 The Green Paper – Answers to Questions

Why the BBC? Mission, purpose and values

2.1 *How can the BBC's public purposes be improved so there is more clarity about what the BBC should achieve?*

2.1.1 The public purposes represent good aspirations but there are two requirements that would make them more meaningful. Firstly, they need more associated detail to ensure that there are clear objectives to meeting these purposes. Secondly, they need to be more closely regulated. We will discuss below how the BBC's performance in meeting one key purpose 'representing the UK, its nations regions and communities', has not been satisfactory. We would assert that this is due to that lack of clear objectives and the lack of scrutiny by the BBC Trust on a sufficiently regular basis.

2.2 *Which elements of universality are most important for the BBC?*

2.2.1 TAC would argue that all three elements outlined in the Green Paper remain relevant. Taking each in turn:

- 'The BBC should provide all types of content and meet the needs of all audiences'. On the basis that it is modernised to include use of i-player catch-up services, the Licence Fee is universal and it follows that all those who pay it should be catered for. This doesn't necessarily mean the BBC having to meet all their individual expectations all of the time, but equally it is in reality impossible to start removing aspects of what the BBC does without impacting upon its overall value. The BBC rightly argues that having some popular programmes, many of which are those unlikely to have been commissioned by other broadcasters – for example 'Strictly' and 'Bakeoff', means it is providing popular entertainment which is simultaneously distinctive and provides unique entertainment to the Licence Fee paper.
- 'Have due emphasis on covering single unifying events'. We absolutely agree that the UK's main public service broadcaster has a role to play in bringing such events to the public, although again in reference to the 'fourth public purpose' regarding the Nations and Regions, we would like to see the BBC do more to publicise and reflect Nations' events to the rest of the UK – for example some coverage of the National Eisteddfod in Wales and similar events elsewhere.
- 'Be available on all platform and devices'. There is a logical need for a publicly funded broadcaster to be available and accessible on all platforms. The Green Paper makes the point that people can access a greater range of content via these platforms and we would argue that people can be partly drawn to taking up watching on those platforms by knowing that the BBC's services are accessible there also. For this reason we would maintain that in respect of the discussion over retransmission payments, having the BBC's services available via cable and satellite platform EPGs means that they keep customers viewing within those platform environments. It is worth noting that BBCs 1

and 2 represented around 25% of viewing on digital cable and satellite platforms in 2014¹

2.2.2 This is therefore a set of circumstances which is mutually beneficial.

2.3 *Should Charter Review formally establish a set of values for the BBC?*

2.3.1 We would agree that a set of values such as those suggested in the Green Paper could be worthwhile to ensure that the BBC maintains certain standards and objectives which run through all of its content and services.

What the BBC does: scale and scope

2.4 *Is the expansion of the BBC's services justified in the context of increased choice for audiences? Is the BBC crowding out commercial competition and, if so, is this justified? And;*

2.5 *Where does the evidence suggest the BBC has a positive or negative wider impact on the market?*

2.5.1 TAC very much agrees with the conclusion of Ofcom's recent third review of public service broadcasting, that 'The BBC remains the cornerstone of the PSB system and is the key driver of investment across the system'². The BBC invests heavily in creativity, estimated at some £2.2bn overall in 2013-14, of which £1.2bn went to the wider creative industries in the UK³.

2.5.2 We believe that the UK has a very successful mixed broadcasting ecology that, between the free-to-air PSBs plus the cable and satellite broadcasters, provides a rich mix of programming and associated content. Together, these broadcasters provide a good competitive environment in which indie producers can take their ideas to a number of different commissioners depending on the types of services the latter provide and their remits. This continuing plurality of choice is also key for audiences in the UK.

2.5.3 Any reduction in the capacity of one of the UK's leading commissioners of creative content would make this ecology weaker. So whilst TAC would like to see the BBC's central bureaucracy and production base become smaller in size, we believe the BBC works best as a PSB which is well-funded and can operate across many types of content and platforms to continue to carry out the still-relevant overall function of informing, educating and entertaining the British public.

2.5.4 In terms of funding the expansion of the BBC's services, this must not be at the expense of unique services such as S4C, which has a vital part to play in providing an alternative

¹ Communications Market Report 2015. Ofcom, July 2015, p195, Fig 2.52

² Ofcom. Public Service Broadcasting in the Internet Age: third review of PSB. July 2015, p7

³ Frontier Economics. The contribution of the BBC to the UK creative industries. 2015, p3

commissioning option which Welsh companies in particular can use to get their ideas on screen and build creative businesses.

- 2.5.5 The BBC points out in its efficiency report that compared to the size of other media organisations, its budgets are relatively small⁴. It is valid to compare the BBC with the likes of NBC Universal, Viacom and Sky and in those terms the BBC's budget is significantly, in some cases hugely, smaller. In terms of production, the BBC does compete with the indie sector for 25% of its commissions and the indie sector consistently wins around 75% of these commissions.
- 2.5.6 In recent years the Government has recognised the importance of Britain's creative industries, not just to our economy but also to British cultural life. It has invested in a series of tax breaks which are to help further boost the UK's media sector.
- 2.5.7 The media sector will continue to grow and diversify over the next ten years, making the BBC's still significant in-house production base increasingly difficult to justify on its current scale. A key objective of the next Charter should therefore be to equip the BBC for this need to be more flexible and at the same time to increase the investment made by it directly into the creative sector.

BBC Studios

- 2.5.8 TAC is uncomfortable with Lord Hall's concept of the BBC's in-house production simply being preserved wholesale and moved into the wider TV production market, where it will be able to compete against the indie sector in gaining commissions from other broadcasters. We are not convinced that BBC Studios really addresses the need for genuine competition between in-house and indie producers, in line with the principles of Lord Hall's Compete or Compare agenda.
- 2.5.9 There is a danger that the establishment of BBC Studios could lead to unfair competition and would prefer to see a move to a slimmed-down production base retaining some core elements such as BBC News and the Natural History Unit. At the very least we would need to see more detail than has so far been produced on how BBC Studios will operate in a transparent manner that gives independents a level playing field to compete or BBC and indeed other commissions.
- 2.5.10 The independent production sector is well-suited to adapt to the changing demand and shifts in commissioning patterns as broadcasters adapt and adjust their strategies to meet audiences' ever-changing expectations. Companies can scale up and down, more easily invest in new technology and use their wider range of contacts with talent and production partners, including partners overseas who can all help to bring a greater mix of content to the BBC's output.
- 2.5.11 Using a large number of producers from around the UK is primarily about having a better range and diversity of public service content. In addition we believe independent producers are competitive when it comes to price, and we question the accuracy of the (unreferenced) figures provided by the BBC regarding the respective costs of an in-house

⁴ Driving efficiency at the BBC to deliver quality content for the Licence Fee payer. BBC, November 2014, p11, Figure 3: Relative revenues of BBC and competitors (2013)

and independent production⁵, bearing in mind the difficulty of accurately allocating a proportion of overhead costs to a specific in-house production.

2.6 What role should the BBC have in influencing the future technological landscape including in future radio switchover?

2.6.1 We have some reservations about whether the BBC should be getting too involved in developing technology. In the modern world there are a great many large companies investing very large sums of money in developing new technology and we question the ability of the BBC to keep pace with this. The failed Digital Media Initiative, which lost £100m, is perhaps a good example of the BBC attempting to be active in this area – this type of R&D might well be best left to larger players in the field for whom R&D is at the core of their business and who can afford to sustain that type of loss.

2.6.2 Some services, where they involve utilising existing platforms such as the i-player, are demonstrably of benefit to the Licence Fee Payer, providing the ability for them to watch BBC programmes online or suitably enabled TVs either live or via catch-up. However we feel any other proposed technological development should be subject to strict guidelines including an assessment of their likely application in the wider media landscape.

2.6.3 To some extent we agree with the Green Paper's assertion that: "The BBC's role in the development and deployment of new technologies – particularly online distribution – has the potential to impact negatively on the ability of commercial competitors to monetise emerging technologies, and could crowd out new start-ups. There may be savings to the licence fee payer from provision of some of these developments by the market"⁶.

2.6.4 However we would hope that the reference to 'online distribution' does not reflect a feeling that the i-player should be curbed – as the Green Paper also states it has been 'hugely successful'. We believe it has created the ability for the Licence Fee payer to extract a lot more value from BBC programmes and services. It has also introduced many people to viewing content by catch-up online and we believe all services, including some commercial services, have benefitted from that. The addition of S4C to the i-player has demonstrated the demand for Welsh language content by the Welsh diaspora.

2.7 How well is the BBC serving its national and international audiences?

2.7.1 Ofcom's figures show that in the five year period between 2008 and 2013, spending by the BBC and ITV on non-network first-run originations fell by 33.2% in Wales, more than in any other UK Nation. This drop demonstrates the receding commitment by the main UK PSBs to Nations, and particularly to Wales.

2.7.2 As Ofcom points out, 'The BBC dominates English-language programmes made specifically for Wales, producing 592 hours in 2013, compared to ITV Wales' 331 hours. But both broadcasters produced significantly less in 2013 than in 2008 – a 17% reduction on the BBC (down from 716 hours) and a 31% reduction on ITV (down from 477 hours). While there

⁵ Submission to the Department for Culture, Media and Sport's Charter Review public consultation. BBC, October 2015, p

⁶ BBC Charter Review – Public Consultation. DCMS, July 2015, p28

has been a reduction in both broadcasters' output of news for Wales (with current affairs output remaining constant across the period), the greatest decline has been in non-news/non-current affairs programming, with a decline of 80 hours on the BBC and 124 hours on ITV Wales. Most of the decline on ITV Wales occurred in 2009, following a reduction in the licence quota'.⁷

2.7.3 ITV could be doing a lot more to commission from the UK Nations and regions, and in fact ITV has recently established a closer relationship with one or two specific indie companies in Wales. But this involvement is still likely to be less than it has been in the past when ITV had a federalised structure. With the ITV Licences renewed until 2023, it is the BBC that is in the best position to ensure production in the nations does not fall further and indeed begins to rise again.

2.7.4 Ofcom's own figures show that in the period between 2008 and 2013 less than half of those in the UK Nations were satisfied that the main PSBs portray their area fairly to the rest of the UK. Whilst that figure rose in that period from 34% to 40%, the importance attached to such portrayal also rose from 58% to 68%.⁸

2.7.5 In its response to Ofcom's Third Review of Public Service Broadcasting, the BBC alluded to the significant work needing to be done, stating that:

'It is fair to say that there is unmet audience demand for greater representation on-air and on-screen in the network services of the PSBs. This is an area that the BBC is seeking to address. The balance of spend and output between English language content and indigenous language content is also an important issue. How the BBC responds to a multi-national UK and how it supports National and regional self-expression will be key themes for Charter Review.'⁹

2.7.6 We also note that the BBC in its document on BBC Studios, 'British Bold Creative' says that in deciding on its commissioning strategy in the Nations;

'we need to give careful consideration to the different context in each Nation: the market for local-only content is much smaller than network, with more fragile ecologies of independent producers. In addition, this output plays a unique and important role in the BBC's programming portfolio, meeting the distinctive needs of audiences that may not be well served by other broadcasters. The BBC is keen to ensure that it considers the full range of issues in reaching a final decision in this area.'¹⁰

2.7.7 There is increasing concern regarding the extent to which the BBC is adequately representing the different peoples, Nations and regions of the UK. This is due in no small part to its continuing to fail to commission adequately from the creative companies based in the Nations and regions of the UK. Although the BBC has a number of well-publicised production centres in Salford, Bristol and Cardiff, it cannot really hope to genuinely represent all the areas of the UK unless it allows the producers who are embedded in

⁷ Third Public Service Broadcasting Review: Public Service Content in a Connected Society. Ofcom, December 2014, p63, para 3.147

⁸ Ofcom PSB Report 2014: Section 3 – Television. . Figure 3.41: Main PSB Channels combined, PSB viewingviewings, importance vs. satisfaction: 2008-2013

⁹ BBC. Submission to Ofcom's Third Review of Public Service Broadcasting. February 2015, p23

¹⁰ BBC Studios: Strengthening the BBC's role in the creative industries. BBC, September 2015, p13

communities around the various Nations to make more of its programmes and other content, and thus bring their own talent, ideas, stories and perspectives to the screen.

- 2.7.8 However whilst the BBC has devolved some of its production, commissioning in Wales is mainly confined to content that is made specifically for Wales, rather than for the wider UK audience. We believe this shows a lack of understanding of what the BBC's purpose on for the Nations and regions of the UK is supposed to achieve, namely representing the different parts of the UK to the rest of the country. We would point the Government to the findings of the BBC Trust, which in its recent Content Supply Review stated that:

'The Trust will want to ensure that the BBC has developed considered, clear-sighted plans that set out what the right commissioning mix is across the Nations and regions. The Trust will also want to see how the BBC's production centres across the UK intend to work more effectively together with the independent sector based in different parts of the UK to develop creative, sustainable, local ecologies'.¹¹

- 2.7.9 TAC agrees with this stance and we would like to see this included in the Charter and Agreement as an express objective to be delivered by the BBC and measured by the Trust or whichever regulator replaces it.
- 2.7.10 It is crucial that the Charter Review recognises and acts upon the need for all of the above concerns to be taken on board. Another crucial requirement is that the BBC has a commissioning structure in place that allows the nations of the UK to maintain and develop vibrant production sectors, to ensure licence fee payers have access to the best possible content for the years to come.

2.8 Does the BBC have the right genre mix across its services?

- 2.8.1 By and large we believe the BBC does have a good genre mix across its service, but there are concerns in the face of falling license fee revenues that this may be under threat, as highlighted by Ofcom in its third review on PSB:

'as licence fee income has fallen in real terms, the last few years have seen the BBC reduce its investment in programmes in some key PSB genres such as drama, current affairs, specialist factual and education'.¹²

- 2.8.2 Another area of particular concern is children's, rightly highlighted by Ofcom's PSB review¹³ as an area where very few broadcasters are engaging to any extent. It is to be noted that children's is a strong area for Welsh language broadcaster S4C, whose public funding is also falling.

¹¹ BBC Trust. Review of the Supply arrangements for TV, Radio and Online. June 2015, p17-18

¹² Third Public Service Broadcasting Review: Public Service Content in a Connected Society. Ofcom, December 2014, p28, para 6.7

¹³ Third Public Service Broadcasting Review: Public Service Content in a Connected Society. Ofcom, December 2014, pp12-13

2.9 *Is the BBC's content sufficiently high quality and distinctive from that of other broadcasters? What reforms could improve it? And;*

2.10 *How should the system of content production be improved through reform of quotas or more radical options?*

2.10.1 TAC believes that the BBC would benefit from becoming smaller at the centre and by commissioning more of its content from external suppliers. This would enable the BBC to focus more clearly on the nature of its content and be more flexible and open minded about how it commissions and from whom.

2.10.2 This would also enable more programme makers, including those in the Nations, to compete to produce programmes for the BBC's UK-wide TV networks. TAC welcomes some aspects of Lord Hall's 'Compete or Compare' initiative, in which the BBC Director General rightly identified the need for the BBC to ensure it had the right processes and structure in place to make sure it was providing both value for money and the best content available to the Licence Fee Payer.

2.10.3 But Lord Hall's solution of simply keeping BBC Studios intact as one large entity threatens to undermine his own competitive philosophy. Whilst the rationale is that this will mean that BBC production will have to be more efficient to survive, in reality it would mean a large established brand being introduced to the programme-making marketplace, immediately able to leverage large production deals, with the attraction of a link with the corporation's distribution arm, BBC Worldwide. The question is whether this is healthy in terms of ensuring adequate competition for ideas and talent in the wider sector.

2.10.4 There are also questions in terms of achieving greater representation of the UK's Nations. Under 'Compete or Compare' BBC production would, as now, be concentrated in a handful of centres. Lord Hall's plan, therefore, would do nothing to maintain and strengthen competition for commissions coming from every part of the UK. In Wales, for example, if S4C were able to commission more from the BBC's operation in Cardiff, this would adversely affect the indie TV production sector which is currently based all around the Nation. This in turn would mean viewers having less choice in terms of the ideas, talent and perspectives being offered, as Cardiff no more represents the whole of Wales than London does the whole of England.

2.10.5 TAC's view is that whilst Tony Hall accurately set out the challenge for the BBC, ie how to make sure it was getting the best ideas, he did not address how those ideas should best be obtained regardless of their source. The BBC is without doubt a major contributor to the creative economy but Tony Hall's 'Compete or Compare' strategy needs to go a step further and acknowledge that there is no longer such a strong case for having large, unwieldy production arms stuck in a few locations and with significant overheads.

2.10.6 With exceptions such as news and perhaps the BBC Natural History Unit, there is no reason why the BBC cannot adapt effectively for the future by becoming far more lean and flexible as an organisation, by reducing the size of its in-house production unit, along with its structure, costs and bureaucracy. In the independent production sector, budgets are clearly laid out and every penny is accounted for. Inevitably with an organisation the size of BBC Studios it will be more difficult to ascertain the exact amount of overhead attributable

to a particular production, service or even channel. And the need of such a large organisation breeds its own large administrative structure, all of which is funded by the Licence Fee.

- 2.10.7 The BBC has of course moved a significant amount of production to Manchester and indeed to Cardiff but this strategy remains one of concentrating production in few centres, of economic benefit to those areas but of limited cultural value or benefit to the Licence Fee payer in terms of delivering a wider range of ideas, stories, perspectives and talent. The BBC's role as an economic driver is an important one, but in PSB terms the important part of making programming out of London is to accurately reflect different people's lives and stories, and give audiences access to a wider and more diverse range of talent and perspectives.
- 2.10.8 TAC notes the 2014 report produced by Oliver & Ohlbaum for Pact, which calculates that "a move from BBC in-house production to the indie production sector through a combination of four methods 'could provide a value boost to the UK TV creative sector of approaching £600m including a reduction in the net programming costs to the BBC of current output by £35m per year.'¹⁴ This only emphasises that there are significant creative and economic reasons for a much greater BBC focus on commissioning rather than producing TV content.
- 2.10.9 TAC was concerned to see in the BBC's plans for BBC Studios that there should be a 'change' in the 25% independent production quota, so that it is no longer specific to each BBC TV channel. In this respect the BBC mentions BBC 1 and 2 needing greater freedom in their commissioning, but we would argue this runs counter to the original purpose of the quota which was to ensure that there was a critical mass of commissions available, including those to smaller companies and new entrants. Working with this part of the independent sector keeps the BBC's content fresh and prevents the great majority of its commissions going to a few large suppliers, which we believe would have a negative effect on the range and diversity of companies within the sector.

BBC Funding

2.11 *How should we pay for the BBC and how should the licence fee be modernised?*

- 2.11.1 Greater use of the independent production sector will benefit UK audiences with a larger range of ideas, stories, talent and perspectives which genuinely come from all around the UK. But to ensure that the BBC can commission producers at an adequate level, and to the high standards that has made it the envy of the world, it must have adequate funding. We would therefore like to see a return to the situation where the Licence Fee is maintained at the same level as it is now in real terms – ie to be kept in line with inflation.

¹⁴ A new age of UK TV content creation and a new role for the BBC. Oliver & Ohlbaum for Pact, August 2014, p2 The four methods cited are: 'a combination of: winding down some production departments; contracting out some long running strands; transferring some production activities to BBC Worldwide (specifically those most useful to its channels and rights distribution strategy); and, spinning off the remaining departments through a series of management buyouts accompanied by output deals and first look rights arrangements where appropriate to help expand the number of strong medium sized independent production companies in the UK to help counter market consolidation.'

- 2.11.2 TAC supports the type of universal funding model currently used to support the BBC – it serves to create a large number of services which are wholly or partly unique, without impacting on the advertising-raising abilities of the commercial sector, or similarly upon the ability of subscription channels to gain customers. The Licence Fee (provided it is, as we understand, to be adjusted to allow for the iPlayer catch ‘loophole’) remains largely fit for purpose.
- 2.11.3 The recent MTM ‘deprivation’ survey of a number of households, many of whom were hostile to paying the licence fee, revealed a large degree of ignorance about the value of the Licence Fee in terms of the range of the services provided. But once those households had been deprived of the services for a period of time, most of those surveyed said they were now much more positive towards the Fee and the BBC ¹⁵.
- 2.11.4 The household levy is an interesting idea, and one which deserves serious consideration. Were it to be introduced, we would of course expect the levy to be set at an equivalent rate to the current licence fee. This might even represent an opportunity to raise the amount of funding overall back to its previous real-terms level.
- 2.11.5 For as long as it retains a large bureaucracy, the BBC is having to defend large salaries and overheads. Following this Charter and hopefully a re-organisation of the BBC’s structure to make it less unwieldy, it would be in a much better place to argue for a continuation of a universal funding system.

2.12 *Should the level of funding for certain services or programmes be protected? Should some funding be made available to other providers to deliver public service content?*

- 2.12.1 TAC believes that there is a strong case to be made for more clearly defining the portion of the Licence Fee funding which goes to the Welsh language broadcaster S4C, separating it from BBC structures and processes. S4C was, until the Spending Review of 2010, funded by a public grant from the DCMS of just over £100m. This was an inflation-linked grant. Together with its advertising revenues, this enabled S4C to provide high-quality services including the children’s service Cyw, and a range of programme, linear and online content in a variety of genres.
- 2.12.2 The development onto new platforms has been very important for S4C, as there are a large number of Welsh speakers which do not live within the country’s borders. It is, therefore, only since S4C has been accessible on the web and via services such as Virgin Media that the content has been available to all of those who would wish to see it. Indeed the level of i-player requests for S4C has been healthy, with online viewing figures increasing by 175% from March 2014 to March 2015 ¹⁶.
- 2.12.3 But in the spending review of 2010, the decision was made to remove most of S4C’s public grant and no longer tie it to inflation, meaning it currently stands at around £6.7m. In addition, around £75m was committed to S4C from the TV Licence Fee, again not linked to inflation, a sum that has been under threat due to the risk of a percentage of each new cut

¹⁵ Life without the BBC. MTM, August 2015

¹⁶ S4C Annual Report 2015. July 2015, p15

to the BBC's own funding being passed onto S4C despite it being an independent broadcaster with its own programme remits, management and commissioning structure.

2.12.4 This commissioning model is that of a full publisher-broadcaster. S4C, like Channel 4 (with which it has no formal connection) does not make any of its own programmes. Rather, it commissions most of its output from the independent sector, thus helping to make Wales' creative sector a strong growth industry for the country.

2.12.5 S4C provides jobs, skills, and the opportunity for Wales to benefit from its unique locations, stories, perspectives and talent. It is also vital to the broadcasting landscape in Wales in terms of providing plurality. Over and above being a Welsh language broadcaster, it is a broadcaster which gives Welsh viewers more options to see content that reflects their own lives and surroundings. This is of particular importance bearing in mind Ofcom noted in its third PSB review that:

'The Nations and their regions are the areas where there is the greatest mismatch between public expectations of PSB and how it is delivering in practice. For example, plurality remains a concern in Wales.'¹⁷

2.12.6 S4C's status as an independent broadcaster allows it to compete with BBC Wales for Welsh-based content, as well as vie for co-productions and other media opportunities outside of those pursued by the BBC. It also commissions companies which make not only Welsh language television programmes but also radio content for BBC Radio Wales and BBC Radio Cymru (which commissioned 26% and 19% from indies in 2014-15 respectively¹⁸). Without those companies splitting their activity across both S4C and the BBC, we would argue that Radio Cymru and Radio Wales would struggle to have an independent sector to supply it with a diverse range of content from around Wales. Together BBC Wales and S4C make up complementary services for Wales and any attempt to roll S4C into the BBC would take away the plurality of voice and commissioning entities which the current setup provides. On this note TAC very much welcomes the conclusions of the Culture, Media & Sport Select Committee Report on the Future of the BBC which stated that:

'It will be important that S4C remains independent operationally and managerially over its affairs and editorially over its content'¹⁹

2.12.7 However this independence has been under threat both from the cuts to S4C's funding, which amount to a loss of around 36% of its income in real terms²⁰, and the fact that its Licence Fee income means it falls under the auspices of the BBC Trust.

2.12.8 As noted above, S4C has had to introduce efficiencies, and its administrative overheads are now down significantly. Correspondingly, TAC's members have also had to ensure they are working as efficiently as possible. The reduced funding has affected programme budgets and therefore to make those budgets work, independent producers have sought to be as efficient as possible. However it is worth noting that some efficiencies in the sector are

¹⁷ Ofcom. Public Service Broadcasting in the Internet Age: third review of PSB. July 2015, p7

¹⁸ Performance against public commitments 2014/15. BBC, 2015, p16

¹⁹ Select Committee on Culture Media & Sport. Future of the BBC. HoC315, 26 February 2015, p111

²⁰ S4C. Future of Welsh language broadcasting. 2014, p06-07

only one-off gains, and as pointed out in Ofcom's PSB review, this is not an everlasting process:

'analysis suggests that demand for production staff and studio costs is now increasing, and savings – in terms of producing the same programmes with smaller crews and fewer filming days – have largely been realised'.²¹

- 2.12.9 Moreover each new innovation in viewing quality, (eg Ultra-High Definition or '4K'), brings extra financial pressure to bear on producers.
- 2.12.10 Simple logic states that S4C is currently in a cycle of diminishing returns, where it is seeing regular cuts to its funding which it cannot absorb in 'efficiency savings' (significant amounts of which have already been made), and therefore its content budgets are affected. This results in the danger that it would then struggle to fulfil its role of providing PSB plurality and of course a place for the Welsh language to flourish.
- 2.12.11 TAC notes that the letter from the Treasury and the DCMS to the BBC, addressing the change of arrangements for free TV Licences for the over-75s, states that: 'The BBC's grant to S4C may be reduced by an equivalent percentage reduction in funding to the percentage reduction made to BBC funding over the period 2018/19 - 2020/21. It will be up to the Government to decide how to make up the shortfall'.²²
- 2.12.12 This letter highlights two issues. Firstly it highlights the need for the Charter process to result in the Licence Fee funding (or whatever replaces it) that goes to S4C, being re-designated from being 'a grant from the BBC' to being a funding stream which is clearly separated from the BBC.
- 2.12.13 That part of the Licence Fee allocated to S4C should be ring-fenced and not subject to any future cuts or rationalisation that the BBC decides to carry out as part of its own financial constraints. The BBC states that part of the reason it is looking at making 20% 'efficiency savings' is due to £150m of planned investments²³. These investments and efficiency savings are the decision of BBC management. S4C has had no say in them, therefore we would argue that S4C should not have to feel suffer the consequences of those investments. Also, it should simply not be within the jurisdiction of one public service broadcaster to make decisions on the funding of another.
- 2.12.14 We note the assertion in the BBC's Charter Review response²⁴ that ring-fencing of S4C's Licence Fee was not necessary, with the BBC pointing to the fact that they voluntarily increased funding for the World Service. S4C's Licence Fee funding has reduced since 2013/14 - from £76.3m to £74.5m in 2016/17²⁵. We therefore refute the BBC's implied suggestion that it would not in any circumstances be party to a reduction in the level of Licence Fee funding allocated to other services.
- 2.12.15 We realise that a clearer separation of the BBC's and S4C's funding streams could lead to accusations by the BBC of 'top-slicing' and we recognise the DG's hostility to that and

²¹ Ofcom. Public Service Broadcasting in the Internet Age: third review of PSB. July 2015, p9

²² Letter on arrangements for over-75s TV licence concession from 2017/18. HM Treasury and DCMS to Lord Hall, 3rd July 2015

²³ The Future of the BBC. BBC, September 2015, p98

²⁴ Submission to the Department for Culture, Media and Sport's Charter Review public consultation. BBC, October 2015, p73

²⁵ S4C-BBC Trust Operating Agreement. 2010. http://www.s4c.cymru/production/downloads/e_cytundeb-gweithredu-s4c-bbc.pdf

appreciate his reasoning. TAC does not in general support top-slicing as we have seen in terms of broadband rollout and other uses of the funding. Nevertheless, we would take the view that as the Government decided to use the Licence Fee to partly pay for another PSB, it therefore has to see through the ramifications of that decision and ensure that S4C remains independent and its funding is secure and entirely separate from the Licence Fee that goes to fund the BBC.

2.12.16 Secondly we are keen to know how exactly the Government intends to make up what it rightly describes as a 'shortfall' in S4C's funding. This decision cannot be left to future budgets and spending review announcements – the DCMS must ensure that the Charter process puts in place an appropriate funding mechanism for S4C at a level suitable to allow S4C to continue its crucial role in promoting the Welsh language and enabling growth in the Welsh independent sector. This funding should be linked to inflation.

2.12.17 Returning to the matter of S4C's independence, we are very concerned about the following paragraph that appears in the BBC's own response to Charter Review:

'The BBC is also fully committed to providing services in the UK's indigenous minority languages. We will continue to work closely with our strategic partners, including S4C, MG ALBA and NI Screen. In response to the growing audience challenges faced by these services, we want to work closely with our partners to move faster online to reach younger, digital audiences.'²⁶

2.12.18 Although we acknowledge that S4C works in partnership with the BBC, one of the benefits of which is that S4C is now available via the i-player, we very much hope that the BBC is not suggesting that S4C be an online, rather than broadcast, service.

2.12.19 Reaching out to younger viewers is certainly important. Our members already engage with audiences on a wide range of platforms. For example, Antena's music programme Ochr1 for S4C, which showcases new and up-and-coming Welsh bands, posts clips of the groups' performances on a dedicated YouTube channel²⁷, in the week leading up to the programme's broadcast, generating discussion around the show.

2.12.20 But S4C is a public service broadcaster which should be widely available, including via terrestrial and cable and satellite platforms, in order to provide plurality in broadcasting for all age groups not just younger audiences. Welsh speakers vary greatly in age and social background. They wish to access S4C on the platform of their choice and convenience.

2.12.21 On a practical level, it is also well-documented that Wales is an area where there are still significant problems regarding broadband access, especially in rural areas. These are often areas with a significantly high proportion of Welsh speakers. And some, perhaps particularly older, viewers would not necessarily find it easy to move online and would possibly simply cease using the service, making the situation of the Welsh language even more perilous. This could also lead to the negative effect of reducing exposure to the content made in that nation.

²⁶ Submission to the Department for Culture, Media and Sport's Charter Review public consultation. BBC, October 2015, p43

²⁷ <https://www.youtube.com/user/Ochr1>

2.13 *Has the BBC been doing enough to deliver value for money? How could it go further?*

2.13.1 We recognise that the BBC has sought in recent times to represent better value for money, including its commitment to reduce the number of management levels. We need to see how these plans develop, but again if they are to be genuinely cost-effective, we must be assured that BBC Studio's producers are working strictly within the same budgetary rules as external ones.

2.14 *How should the BBC's commercial operations, including BBC Worldwide, be reformed?*

2.14.1 As a distributor of BBC-commissioned content, BBC Worldwide does have brand advantages and also a 'critical mass' of content. However, it is important that producers commissioned by the BBC continue to have the option to take their content elsewhere should they wish to do so. BBC Worldwide's ability to provide valuable gap financing for BBC Production (and other) programmes, thus making them fully funded, gives the BBC a significant, some would claim unfair, advantage. For this reason TAC has opposed any changes to the Terms of Trade which govern the negotiations between indie producers and the PSBs.

BBC governance and regulation**2.15 *How should the current model of governance and regulation for the BBC be reformed?***

2.15.1 TAC has had several meetings with members of the BBC Trust and found it generally willing to engage with our sector. We nevertheless concur with what seems a growing consensus that the BBC Trust has not been sufficiently separate from the Corporation to be able to fully carry out its duties as an external impartial regulator. Nor has it fully been able to carry out the role of a supportive non-executive board.

2.15.2 TAC therefore agrees with the idea that the BBC should have its own unitary board plus a fully independent impartial regulator to ensure it is providing value for money and fulfilling its remit. We would regard Ofcom as a suitable option, and do not share the concerns expressed by some that Ofcom would change the character of the BBC or make it subject to an overly market-driven analysis. Ofcom is unequivocal in its statement that the BBC is the 'cornerstone of PSB' and therefore clearly understands the importance of the BBC's investment in high-quality public service content. The BBC is itself a regulator of the media landscape. Its high standards of quality and creativity continue to make it the benchmark which other broadcasters, public and commercial, seek to match. Ofcom would not need to have oversight on such matters as service licences, remuneration and journalistic standards. We see these as being the responsibilities of the Unitary Board.

2.15.3 We don't altogether dismiss the idea of an alternative separate independent regulator for the BBC, although that option could well entail represent additional cost to the Licence Fee Payer.

2.15.4 The funding and governance of Welsh language broadcaster S4C is closely linked to the BBC's own funding and governance. Because the BBC Trust is a 'custodian' of the Licence Fee, S4C has found itself subject to scrutiny from the Trust as well as its own S4C Authority and also Ofcom. TAC finds it a matter of continuing concern that the Trust has (under the

BBC-S4C Operating Agreement) the right ‘in extremis’ to withdraw S4C’s funding. TAC has long argued that if anyone should have that power, it should be the Secretary of State for Culture Media & Sport. S4C is part of an UK-wide PSB ecology over which that government department currently presides.

2.15.5 It appears that the BBC’s own governance and regulation will be fully overhauled. We would argue that if the same were to be done with S4C, further savings could be made and re-directed to be spent on content for audiences. This should only be undertaken following a proper review of S4C’s purpose, remit and structure. The existing regulator Ofcom could potentially regulate the BBC and S4C. Both those broadcasters could then have entirely separate unitary boards overseeing them from an internal perspective.

2.15.6 TAC has said publicly it would like to see a number of measures to see S4C put on a more sustainable footing:

- Its funding should be linked with inflation going forward. This would be in tune with the Government’s commitment to once again link the Licence Fee itself with inflation.
- That if S4C remains part-funded by the Licence Fee or its replacement, this funding should be wholly separate from the BBC and any BBC-specific regulator.

2.16 *How should Public Value Tests and Service Licences be reformed and who should have the responsibility for making these decisions? And;*

2.17 *How could the BBC improve engagement with licence fee payers and the industry, including through research, transparency and complaints handling? And;*

2.18 *How should the relationship between Parliament, Government, Ofcom, the National Audit Office and the BBC work? What accountability structures and expectations, including financial transparency and spending controls, should apply?*

2.18.1 TAC shared the concerns of many that the recent Licence Fee deal between the Government and the BBC, in its haste and behind-closed-doors approach, echoed that of 2010, which saw new demands put upon the Licence Fee.

2.18.2 One result of the Charter Review process should be a protection of the BBC and S4C’s funding which prevents such sudden and non-consultative deals being done in the future. Despite criticism from some corners of the media, the BBC remains relatively popular with the public. The recent MTM survey showed that once the range of its services and the cost of them was made clear, the public supported the BBC and its level of funding.

2.18.3 We would argue there is no sound evidence to justify cutting the public funding of organisations which are investors in the creative economy and which thereby generate a proportionally greater amount of economic and cultural wealth than their initial total public investment.

2.18.4 The previous two Licence Fee settlements were conducted on a highly unsatisfactory basis, with no public consultation and the appearance was given that the BBC was put into highly pressurised discussions. TAC argues that there should be a greater separation of the BBC from Government and that there should also be an independent method of deciding the

level of the Licence Fee or any replacement funding model, and if any other services or projects should be paid from it.

- 2.18.5 Bearing in mind the key role the BBC has in presenting impartial and comprehensive news and political coverage, for either Government or Parliament to play a close role in deciding its level of funding is clearly something which could lead to decisions on the BBC's future being made for political reasons.

2.19 *Should the existing approach of a 10-year Royal Charter and Framework Agreement continue?*

- 2.19.1 In order that the BBC can plan ahead to be as effective as possible in how it applies its funds and meets its remit, it should have a reasonable period of time during which it can work towards meeting them. The current Charter Review process, whilst it has officially begun later than the previous one, has nevertheless been preoccupying policy makers and opinion formers for some time. At the current time of writing there are at least seven separate processes and consultations on the issue, from the Government, Parliament, Welsh Government and the BBC Trust.
- 2.19.2 All of these exercises are valid, but it nevertheless points to the fact that, having reached whatever conclusions from this current review, there needs to be a significant break before we see a return to the issue.
- 2.19.3 Lastly, we concur with the view of the Chair of the BBC Trust that the current timing of Charter Review so close to the General election cycle is not ideal, and would therefore recommend that the next charter specifically should run for eleven years, in order that more space is created between the General Election, and the BBC Charter Review process.