



Welsh Affairs Committee

Oral evidence: Broadcasting in Wales, HC 450

Monday 1 February 2016

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Members present: David T C Davies (Chair); Chris Davies; Dr James Davies; Carolyn Harris; Gerald Jones; Liz Saville Roberts; Mr Mark Williams.

Questions 210-287

Examination of Witnesses

Witnesses: **Rona Fairhead**, Chair, BBC Trust, and **Elan Closs Stephens**, Trustee for Wales, BBC Trust, gave evidence.

Chair: Good afternoon, pñawn da, Ms Closs Stephens, and thank you very much indeed for coming along to give evidence to us this afternoon. Please do not be offended; there is a major debate starting in about half an hour and a number of members are already speaking in that, so they will have to leave and take their turn. It is just the way things are around here; they cannot always be foreseen. Thank you very much indeed for giving evidence. I would like to start with Gerald Jones.

Q210 Gerald Jones: Can you start by expressing some of the strengths or weaknesses of the BBC's current governance structure? There has been a suggestion from yourselves about having a unitary board. How do you see that unitary board working alongside the independent regulator and what impact would that have, in your opinion?

Rona Fairhead: Yes, I am happy to. This structure has now been in place for about nine years. I think that it has brought more accountability, certainly to audiences, in terms of audience representation through the Audience Councils and the research that is done. It has brought more visibility about decisions and it has allowed the public to have its voice. I think the introduction of service licences, which is the BBC Trust's way of governing the BBC, has made sure that the BBC can be held to account to those services—BBC One has its own service licence—and has also allowed the commercial market to know where the lines are. In terms of management and governance, there has been a big drive about improving efficiencies. Around £1.6 billion will have been taken out of the annual cost base as a result. I think there have been some very positive changes from the time when there was a board of governors and nobody really saw what was happening or felt represented.

We have also been clear, however, that there are problems with the current structure. We think that the line between the Trust and the board about management and governance is

sometimes blurry, so what we have said is keep the good, keep service licences and the things that have been improvements, keep the linkage with the audiences, but we would see the frontrunner as having a unitary board where all that governance function is done—with some bespoke regulation to make sure that the BBC is still held very much to account on behalf of the Government, the licence fee payers and the audience—and a board that will govern and manage and make decisions quickly in a world where quick decisions are required.

Q211 Gerald Jones: Do you see any negatives with that situation? From what you have described, it is a very positive scenario, but do you see any negative impacts on that arrangement?

Rona Fairhead: I think we have been clear that if it does go this way—and at the moment you know Sir David Clementi is doing a review—and if he chooses a unitary board with bespoke regulation, the question is: how do the people of Wales or Scotland or Northern Ireland make sure that their voices are represented? Whatever the governance structure, the whole rich diversity of the UK must be reflected. That is the challenge that people have. We are waiting for Sir David to come with his recommendation before we say anything because we did not think it made sense for him to do a full review and then say what we thought the answer was before he spoke. But we have been working with him; we have taken him through how service licences work, how the engagement with audiences works, so he has full knowledge of how we operate. It is now for his review and then we will respond to that.

Q212 Liz Saville Roberts: Rona, could you give us some more details about how you anticipate the unitary board operating? Effectively, what you are doing is bringing the Trust and the present executive board together. How do you propose this working and how is this foreseen to be working? Are we talking about something that reflects the same size? I can see advantages and disadvantages from bringing these two separate bodies together, particularly where we are going to lead in a moment in looking at representation of the nations possibly.

Rona Fairhead: I think the idea of a unitary board is that that is your structure and then you have bespoke regulation for the BBC, however that is done. I would envisage, and what we envisaged when we talked about a unitary board, was both the executive board and the Trust would be disbanded and this would be a new creature that would conform to all governance standards—so, an independent chairman and a majority of non-executive directors on that unitary board. The strategy would be pursued. The management would be held to account in the way that the board did. There would still be a final complaints hearing outside the BBC to a bespoke regulator and there would still be service licences that the board would hold the management to account to execute from a managerial point of view, but you would still have a regulator on the service licence side to decide what level of service licences needed to be in place.

Q213 Liz Saville Roberts: I do not want to prejudice the next question, but are we going down from the number of the trustees? Would there be fewer non-executive members? These are the people who are going to replicate the role of the trustees.

Rona Fairhead: We have not gone into any of that detail. The difficulty that you find in doing this now is that David Clementi is going to come with a proposal, and we have said to him and we have said to the Government we will not make any statement about what it

might look like until he brings his forward. We hear that is due to go to DCMS at the end of February, early March and then we can see what he is recommending. The important thing from our perspective is that you have an effective board that can take decisions, that makes sure that the views of audiences are heard, and that would include audiences from Northern Ireland or Wales as well as the voices of young audiences. We have also been very clear that accountability will need to continue for that organisation, so we are committed, as I hope you will know, to lay our annual report and accounts in front of the Scottish Parliament and the Welsh Assembly because we think that is another way to make sure the BBC is held to account.

Elan Closs Stephens: If I could add a short word, although you are right in thinking that the obligations currently exercised by the Trust and the executive board are coming together, some of those requirements will be done by the regulator—complaints and appeals and so on—some of the work of the current Trust will be taken to another place, so there will be a slightly less burdensome request. In fact, as Rona said, one of the problems of the current model is trying to do two different roles in one.

There will also be the public purposes of the BBC. We intend to be very firmly of the opinion that these should be incorporated into any new structure and those public purposes will encompass the need to look at all audiences or communities, all diverse audiences throughout the UK. The question remains for Sir David to come up with how exactly that can be done.

Rona Fairhead: For example, you could see in part of the service licence, or to the BBC, a requirement for portrayal built into service licences, and that is one of the messages that we have as a result of the consultation we have done. In terms of the actual numbers, I think the challenge is always with the board to keep it of a size where it can be effective and hold to account effectively and have a majority of non-executive directors to make sure that there is enough control and governance of the executive members of the board.

Q214 Chair: Ms Fairhead, our briefing here suggests that you are the people in overall charge of the BBC, that the executive board answers to you and your job is to make them answer. I don't know why, but I get the sense that perhaps, while that might be what happens in theory, in practice it is the executive board who are the full-time professionals who have been there for years and you are the outside experts. I wonder if the relationship is a bit more of a "Yes Minister" one, where in theory you are in charge, but in practice the full-timers are running everything. Is that an unfair perception that I might have picked up?

Rona Fairhead: I think there is confusion of two things. It is very clear in the charter that the Trust does not run and operate the BBC. Therefore, any issues of management—so, full-time management activity—is with full-time executives, the head of programmes or the controllers of BBC One and Two.

Chair: I understand that.

Rona Fairhead: The executive board is overseeing that. They have a remuneration committee and audit committee.

Q215 Chair: But you are setting the direction?

Rona Fairhead: That is where the blurred lines of responsibility are. What we have said is that rather than have that blurred line where the Trust is seen as sovereign body but the management is done by the executive board and the management issues are addressed by the executive board, what would be more sensible would be to put all of that into one place, give much greater clarity. At the moment, if there is a question people do not know whether they go to the DG, who is also chairman of the executive board, or to one of the non-executive directors on the executive board or to the Trust. We are trying to stop that confusion. Where we are fully in charge is with the regulation, putting in service licences, requiring the BBC to either not proceed with a new service proposal or giving them authority to do so, or not to close or open other services. There are areas where there is a clear line of accountability and responsibility for the Trust, but you have hit on exactly the point of this structure. There are blurry lines about who actually is in charge of that management and operation and that is what we think needs to be addressed.

Chair: Presumably, if we end up with one unified board, it is going to be a combination of people who have worked their way up through the BBC alongside outside experts with a knowledge of finance or whatever, who may not even be doing it full-time, all coming together. Then one of the challenges is going to be to make sure that all the different parts of the UK are represented within that as well—which I think probably brings me nicely to the next question.

Q216 Carolyn Harris: I am one of those who is leaving early, so apologies; women of a certain age have a pension to protect. We are led to believe that the governance of the BBC should reflect the new constitution of the UK. Do you accept that the current structures fail to represent the needs of Welsh audiences?

Rona Fairhead: “Fail to reflect” is very strong because the stark numbers would say that the people of Wales use the BBC more than any other nation in the UK. They have the highest audience appreciation scores. You also start from a position where there has been significant investment and continued significant investment in Wales. I think it would be very hard to say they have failed to represent.

When we have done our consultation, the challenge has been: do the people of Wales feel that they are portrayed, particularly in drama, particularly English language? I think there is a question to be answered on English language that has not yet been fully answered. If you look at what we get from the audience, the majority say they are very happy with the portrayal, but there is a significant number, 41%, who say they are not. We have been very clear that portrayal, not just investment in Wales, which as I said has been significant, needs to be addressed in the next charter. What we are suggesting is, first, that the production quota that has grown in Wales over the life of this charter from about 2.5% or 2.6% of the network production to about 6.5% should continue. We have also recommended a specific public purpose about portrayal, but we think it also is about the way commissioning works to make sure that there is a change in culture to use the talent from Wales and that the people of Wales can see themselves on network television more.

Exactly to the Chairman’s point, commissioning is a management issue that the BBC executive has to come forward with. We are encouraged that Tony Hall and his team are saying that they are looking at ways they can change commissioning, which we think is the right direction, and he will come forward with their plans to do that. We think all of those three things will be needed to improve a good situation in terms of the audience

level of usage and appreciation of the BBC and make it better. That is what we will be pushing. It sounds technical but putting it into a service licence where it is specifically held to account gives more levers to any future regulator.

Q217 Carolyn Harris: I am going to ask you a supplementary, but can I just ask you another question? I asked this of ITV. Are people coming forward with Welsh drama and pictures about Welsh life? ITV says nobody is coming forward and pitching to them. Are you having people with ideas?

Elan Closs Stephens: I think that is a matter that you will have to take up in greater detail with the Director-General and with Rhodri Talfan Davies when they appear before you shortly, because it is for them to decide on their editorial independence. However, I would say that Wales is a particularly vibrant part of the world for drama production. It would be very strange indeed if there were not any ideas coming through, given the presence of S4C for the last 30 years and indeed the presence of the BBC for over a century in both languages with some very notable successes over the years.

Carolyn Harris: And the independents also.

Elan Closs Stephens: And the independents. This goes beyond—and I think you are quite right to say—mere figures. There is a huge spend in Wales on the production, on BBC Wales itself, Radio Cymru, Radio Wales, on the orchestra and now on the new, wonderful building that is going up right in the middle of Cardiff that will be hugely regenerative for that area of Cardiff. When you add the sums, it is a considerable spend. The area of weakness is drama commissioning and we have had complete assurance that it will be addressed, so that is all I can say.

Rona Fairhead: What I would say is we have spent some time going around the country for this charter review and we had a seminar in Cardiff. We had one of the independent producers come. It was interesting because her position was that all the base is in place now. The creative industry in Wales has grown by about 50% since about 2005. There were always skills there, but now there is a critical mass of those skills. Her message was that this is the time. This is the time for the independents, the BBC, everybody to step forward, make sure that talent comes through and make sure that commissioning is done and the portrayal gets even better. I think her position was much more optimistic on the basis of everything is in place, Roath Lock, critical mass of skills; this is the time.

Chair: We are going to come back on to Roath Lock in a minute. Mark Williams would like to come in.

Carolyn Harris: Can I ask my supplementary quickly?

Chair: Please do. May I just gently say that, contrary to what I was expecting earlier, in this session we are probably going to need to speed up the questions and answers?

Q218 Carolyn Harris: Very quickly, is there enough scrutiny and accountability for BBC Wales and the BBC in general?

Elan Closs Stephens: I have been privileged to be the trustee for Wales, and I have found that within the Trust itself there has been huge support and a requirement for the BBC in general to take the nations seriously. That is something to put down as a marker.

Chair: That was excellent.

Q219 Mr Williams: I have a question for my constituent, Professor Elan Closs Stephens. It was just a comment you made when you gave evidence to the Senedd committee that was looking into BBC charter review, and I want to prise out a little bit more what you meant then. You talked about, “My personal view is that the structure in Wales as it pertains to the Audience Council could be strengthened”. You also talked about accountability of bodies like the Assembly committee. Could you elaborate a bit more on how you feel the Audience Council could be strengthened? Are you going as far as the Institute of Welsh Affairs, who were talking about a very clear, different model, which was all about reinventing the national broadcasting councils, international broadcasting trusts?

Elan Closs Stephens: I do not intend to duck the issue, but the Sir David Clementi review will be looking at various models of governance. One of the things that we are very keen to have is certainly greater accountability within Wales. As Rona has just mentioned, the MOU is not yet signed, as far as I know, between the Welsh Government and DCMS, but one of the things that we have been very keen on is that the annual reports, for example, would be laid before the Assembly and there would be an occasion when people could question. The current advisory council is advisory, and I think there is a case for an exploration of whether that should be advisory, whether it should be more engaged in a different way as the old broadcasting councils were. It is a matter, I think, for the Clementi review to bring out and we hope that some recommendations—whether they will be options we do not know—will come out towards the end of February.

Q220 Liz Saville Roberts: We are on governance and governance is significant. We are talking about public purpose, we have been talking about a regulator, but at present we do have individuals on the Trust who are responsible for the nations. Even with that in place, we are concerned about over centralisation and the experience of the BBC in the nations and vice versa. Would you be looking with the new unitary body for there to be individuals who are responsible for the BBC’s presence in the nations still as a way of ensuring that there are people who are charged with that responsibility?

Rona Fairhead: We have said nothing publicly and we are not going to start now because we have the commitment to David Clementi that we would not. I suppose I start from the basis that every board has to make sure that it represents the interests of all licence fee payers. That has to be the ultimate, because it has to represent the young people of England as well as the people of Wales as well as people of ethnic groups. My sense is that whatever you do, you start from the principle that every board director on this unitary board should have everybody’s interests at heart.

Within that, there has to be a structure, whether it is something operationally, whether it is a series of bolstered Audience Councils, whether it is more use of technology to get more accountability, to find a way to make sure. What we really want is the reality and the substance that the people of Wales are represented, that the BBC is held accountable to the people of Wales, but I think there are various ways you can do that. It may sound like I am ducking the question; I am not. It is just that we have specifically said that we will not comment on anything that Sir David might say until he says it. I do not think I can breach that agreement with him.

Q221 Liz Saville Roberts: From my point of view, I would be deeply concerned if there was not, and given that there are people charged with that responsibility at present and we are holding this inquiry, there is evidently something that needs to be addressed there. If the future was to become more centralised and more inward looking and more south-east England I would be very worried about that.

Rona Fairhead: I think we have been clear in the Trust and one of the targets we have set is that there has to be more decision making, more production outside of the south-east. It is the Trust that has been driving more production; now more than 50% is outside London. Whatever the new structure is, it has to make sure that voices outside London are heard. That has been one of the challenges of the BBC—that it has been very London-centric, very south-east-centric—and the whole push of the Trust has been to make sure that accountability, management decision-making, wherever possible commissioning can be done so that it is properly representative of everyone in the UK.

Chair: Do you want to carry on?

Liz Saville Roberts: Does anybody else want to come in on governance or shall we move on?

Chair: I think we will go on to funding.

Q222 Liz Saville Roberts: If we go on to funding, the question that has been asked is basically that the Audience Council has a concern about the implication that further cuts will have a knock-on effect to BBC Wales. The question is: is BBC Wales given sufficient funding? Alongside that, of course, the First Minister last summer stated that BBC Wales should receive at least £30 million in addition and that otherwise the audiences in Wales are being particularly ill served. How do you respond to the concerns about additional cuts and the call for additional funding?

Rona Fairhead: If you start at the top line, there is an agreement been reached with the Government, which is that the licence fee has broadly been set; now we just have to work out how that gets carved up. That will result in cuts of around 10% across the life of the charter and up to 20% if the investment plans are put in place. The BBC is trying to do everything it can to get those savings from efficiency savings, but it is likely that there will be some services that may be affected.

The precise allocation of budgets will be a matter for the executive. If you look at present, Wales receives in total just over £200 million of licence fee money and the cuts that have taken place in the last charter, which have been around 25%, have been consistent within Wales as across the rest of the UK. We do recognise that Wales has special issues with two languages and there is a special consideration needed there. The budgets have not been set, but we welcome the fact that the DG has said that he will try where possible to protect the nations from these cuts, but there can be no guarantees that there will not be any cuts because the whole service is going to have to take some cuts. We welcome the fact that he has said that he will protect as much as possible and we also welcome the fact that he is taking steps in their investment plans to make sure that there is more coverage for Wales and more money allocated to create some new products, particularly online.

Elan Closs Stephens: For example, there is a commitment in the “British, Bold, Creative” document that he brought out to support the nations as much as possible. I have to say, you cannot just take over £600 million and more out of the BBC without some consequences.

Q223 Liz Saville Roberts: I note that “British, Bold, Creative” says, “During this charter, we ensured that what we spend on network television in each nation broadly matches its share of the population,” but that does not really respond to the way in which different areas of the British Isles are represented by independent digital television. There is a balance there between what looks tidy in a mathematical sense, but if we are really looking at those areas that are underrepresented, perhaps somebody needs to look at that again because the chances are that the areas with the greatest populations are going to be represented anyway. With PSB, is that really the best way that we should be using our resources for those areas that otherwise are suffering a lack of plurality and a lack of representation?

Elan Closs Stephens: I think the sentence you have just alluded to is actually about production, and production outside London in drama and comedy, outside news and current affairs, is now finally distributed according to population. Wales actually has a little bit more—I think it is just over 6% of the UK as opposed to its population of around 5%. In production terms, that is already happening. Then we come back to this question of portrayal, which is a slightly different matter.

Q224 Chair: One of the criticisms made of BBC funding is that there has been a tendency to almost get into a kind of bidding war with other TV companies as to who can pay the most for different stars. Isn't this something that needs to be tackled? The BBC is a public service broadcaster. It needs to be mindful perhaps of having a slightly less commercial remit than other companies. Would you agree with that?

Rona Fairhead: I absolutely agree it has to be very mindful that it is funded by licence fee payers and it is in a different place to a normal commercial. There was huge concern raised about this—in BBC language it is called talent pay—and we did a study on talent pay. The BBC introduced some new practices that were about having much clearer walk-away prices, reducing the dependence on big-name stars who were often very expensive, and trying to find new talent and having a proper flow of new talent, which is part of the basis of the BBC. In some areas, they do outstandingly well. I would highlight Radio 1 as ways to bring in new talent.

We had a follow-up review only last year, which we did publish. It was done by an outside firm and it said that the BBC has come an awful long way from the time when it was strongly criticised to put in place policies to have walk-away prices and to stick to them and, in fact, has reduced the pay of the top talent by, I think, well over 30% over the last couple of years. I think they take it very seriously, but equally the public want to have that blend on the BBC of the familiar faces that they know and trust as well as new talent coming through. That is the management challenge of blending those two.

Q225 Chair: One of the other criticisms made was that some of these people are paid through personal service companies in order to avoid tax. Is that something that has now been clamped down on?

Rona Fairhead: The reason that some are paid is because they have employment with other production companies or other broadcasters, so they are really freelancers in that

way. Looking at it very rigorously in terms of tax and is the appropriate amount of tax being paid, that is absolutely something that we have demanded and the audit committee of the executive board oversees that if somebody is effectively an employee, they should be paid and taxed.

Q226 Chair: Would you always make sure that the company that was invoicing was registered in the UK or would you be willing to use the services of people whose personal service company was based elsewhere?

Rona Fairhead: Again, I would say that is an executive matter. What we have been very clear about is that they have to be absolutely clear that if people are employees, they should be paid and taxed appropriately. I do not know the specific answer on that, but I would say that would be something to raise with the executive because it is an executive decision.

Elan Closs Stephens: As I understand it, the service contracts have been a matter of the BBC's scrutinising discussions with HMRC, so whatever remains has been HMRC-compatible.

Rona Fairhead: I think the BBC recognises the responsibility it has, so it is trying to work with HMRC and to make sure that everything is done that can be done.

Q227 Dr James Davies: Do you feel that the specific interests of Wales are represented in the charter review process and considered fully?

Rona Fairhead: We have certainly gone out of our way to make sure that they are heard. We have done a full public consultation; 1,500 people or so from Wales have responded. We have done public seminars. We have attended seminars from others in Wales. The Audience Council has been very active, and clearly we have Elan, who makes sure that the views of Wales and where she hears things of concern are represented. I do think the voice has been heard, certainly by us, and we have tried to articulate it. Ultimately, it will be has the DCMS heard, and we have tried to make sure that those voices are very clear. That is why some of the areas that have come up about portrayal, about baking it into service licences, is directly from the feedback we have had from Wales, Scotland and the north-east of England. We have tried to do whatever we can. Would you like to say anything more on that?

Elan Closs Stephens: Yes, I would like to add to that. The Audience Council is a very major resource in this charter renewal. I think over the past year we have held 18 outreach events, so this is not the view of 12 people who are coming together on a monthly basis. It is garnering views from the public and trying its best to reach areas that are not usually articulating their views to us. In addition, I make a point of seeing the Secretary of State for Wales; Alun Cairns, the Minister; the Minister for Creative Industries, Ken Skates, in the Assembly; the Welsh peers. I try my best to do it every six months. Sometimes there is quite a large gap, but it is something I have tried to do since coming to this post so that I am as accountable to elected Members as possible. Last time I think you and I met the peers together, Rona.

Q228 Dr James Davies: If we look inside the Department for Culture, Media and Sport, I believe the Secretary of State has appointed a team of advisers to guide him through the process, and not one of those is a Welsh representative. Does that concern you?

Rona Fairhead: I cannot opine on DCMS selection of advisers. I think that is really for the Secretary of State.

Chair: I suppose we cannot draw Ms Closs Stephens on that one either, can we?

Elan Closs Stephens: It was my understanding that this group was no longer active.

Dr James Davies: Okay, that may be the case.

Elan Closs Stephens: Anyway, it is obviously a group that has been brought together for a particular purpose.

Q229 Dr James Davies: If we think about S4C in particular, is there a danger that the needs of S4C are drowned in terms of the charter renewal process by the BBC or the matters relating to the BBC?

Rona Fairhead: Elan is on the board. Would you like Elan to speak to that one? It probably makes more sense.

Elan Closs Stephens: I hope not, because there are two different things going on. There is the size and scope of the BBC, which is a UK process that happens every 10 years and which is quite a massive undertaking for the whole public, all of whom pay their licence fee. Simultaneously, because now the BBC's licence fee is the funding for S4C, then obviously what happens to the BBC has a knock-on effect on S4C. I understand that S4C is very keen to have a review of its own activity, and I have to stress despite the fact that I am on their authority and have had a huge benefit from being on that authority, they are an independent body and it is for them to take this matter up with the Secretary of State for DCMS and to try to find the adequate funding level for themselves. The BBC will then have to respond.

Q230 Chair: What is your view on whether or not there should be a separate review into S4C?

Elan Closs Stephens: Speaking as an authority member, I think that if they are keen to be reviewed, I am always on the side of transparency and a full discussion of the purpose and scope of public bodies, just as is happening at the moment with the charter.

Q231 Liz Saville Roberts: We talked about the funding of the BBC earlier on. Rona, you mentioned that, given that it is cash-neutral, that is effectively 10% in terms of inflation. Is it fair of us to take, therefore, from the letter to Tony Hall last summer from the Chancellor and the Secretary of State for DCMS that that is the equivalent cut that is likely to be made to S4C?

Rona Fairhead: I was there when the Chancellor said it, and what we were very clear about was that S4C is an independent company and has to make its own agreement with DCMS, who are ultimately responsible for their funding. The agreement that we had with the Chancellor was that any impact on revenues or costs that was not BBC driven—so, if the BBC managed to get efficiencies out—then that would not fall to the benefit of S4C,

but increases in revenues would. What we have agreed with Government is there would be a read-across of any changes, and what we have said to S4C as the Trust is that if they want us to stand as honest broker to make sure that read-across happens appropriately and they feel that they are not having to go direct to the executive, we will do so. We are in the process of doing that read-across, but on the basis that the ink is not yet dry on the charter review so we cannot give any firm commitment.

We also have been very clear that the agreement that the BBC has with S4C to fund through until April 2017 stands and that has been pretty positive for S4C in that, despite the cut that the BBC has suffered during that period, it has been about a 2% cut for S4C. We have said very clearly that funding agreement will be honoured by the BBC. We will do the read-across of what is fair in terms of read-across, but any additional funding sources is for S4C to negotiate and discuss with DCMS because ultimately that is what the agreement said. We will do a read-across. For anything additional, S4C would have to talk to the Secretary of State.

Q232 Liz Saville Roberts: I think the simple question is: are we in the right area when we are talking about an additional cut of 10% to an organisation that has seen extraordinary cuts over the last five years?

Rona Fairhead: The BBC has seen extraordinary cuts too, so that is the challenge. S4C has been held within the funding agreement with the BBC at a reduction of around 2%, but it is the read-across. Whatever is fair to read across to S4C we will.

Q233 Chair: It is also fair to point out, is it not, as it has been by some companies, that the cost of technology that is used has also fallen quite markedly over the last few years?

Rona Fairhead: With any company, you have some costs that are falling. You still have to have a lot of investment in new technology and there are other areas like the cost of high-quality drama or the cost of sport that you see every day that are skyrocketing. It is the blend of the two.

Elan Closs Stephens: I suppose one of the things that we are very pleased about is that S4C has decided to colocate its playouts, that is distribution, with the BBC in the new facility in Cardiff, so there will be a saving for them in playing out their programming. I think this is true, that if you read the S4C annual report, as you have done, there is a consistent view that the agreement between them and the BBC has been one that has proved fruitful and co-operative, and that the present co-operative practice between the two institutions is probably better than in the past.

Q234 Chair: Do you think there is an overly-centralised commissioning process that means that Welsh production companies do not get the fair chance that they deserve from London-based commissioners?

Rona Fairhead: That is exactly what the executive is taking a look into. I think that there is certainly a sense that the talent in each of the regions and nations of the UK is not coming through, so part of that is a change in the culture of commissioning, a different way of reaching out. That is what the DG is currently consulting on in terms of changing commissioning, changing news and current affairs to more accurately portray and represent, and they will be coming back to the Trust with their recommendations. A lot of

people highlight the commissioning, and so we look forward to hearing what changes they are planning to make.

Q235 Dr James Davies: In September the BBC announced the formation of BBC Studios, operating in the market to produce programmes for themselves and others. Do you share the concerns of some who feel that this could push out some of the smaller production companies based in Wales?

Rona Fairhead: We have been asked to give our opinion. DCMS is going to decide whether it is possible in principle. When we looked at the current structure, the current system, the WoCC, the window of competitive competition, 50% guaranteed to the BBC, when we did our contents supply review we said we did not think it was sustainable given the current market. A lot of consolidation in the market means that the creativity in the BBC is going to be crushed. We have looked at various options and we have given DCMS feedback on how you address that.

Let me just tell you the process. DCMS will decide whether in principle it is okay and then, when they have said it is okay, we will then go through a regulatory review to say what needs to change. Part of it will be about protecting independence; part of it will be making sure that there is fair trading; and part of it will be making sure that the transfer pricing policy is in place. Only if the Trust, as regulator in this environment, is satisfied will the regulator approve it to go ahead.

There are concerns that have been raised to us. I think the BBC has tried to work with PACT to address some of those concerns and now have a solution or a way forward, but there is still a long way to go down this road. The regulator, the Trust or its successor, will need to be sure that it is comfortable that the regulatory environment does not cause negative things, and, while you are on independent studios, it is also about: what does it do overall to production in Wales? That is very clearly on our radar screen and something that we would look into very seriously if DCMS says go ahead in principle.

Q236 Chair: In theory, is BBC Studios a separate standalone company?

Rona Fairhead: No, in theory it is going to be 100% owned by BBC, arm's length—this is the proposal—producing for the BBC but also able to take some ideas and sell them to other broadcasters. Therefore, there are all sorts of issues you can think about: how do programmes get put into this entity? How do you make sure that transfer pricing is appropriate? How do you make sure that they are dealing in fair trading when they are competing outside, and also what is the impact on independent—

Q237 Chair: What about if it started to lose money? If it is an arm's length company, it would be easy to see whether it were making a profit or not and, if it were losing money, would the BBC just pump money into it to keep it going or would someone have to sell it off?

Rona Fairhead: That is exactly the question that you would have to go through as a regulator: what is the commercial cost of doing this? You would probably end up having to make sure that you have some financial buffer to protect because you certainly would not want to the licence fee payer to be funding a commercial operation. Whatever

happens, the licence fee should not be funding a commercial operation in a way that distorts the market. That is clear.

Elan Closs Stephens: If I could add that if we were to look at the plus and the negative sides, the plus is that the BBC would open up a lot more of its contents to outside competition, more than it does at present from its 50%—25% obligatory, 25% voluntary. It would throw it open. I believe that PACT recently came to an agreement that they could see a way forward for the immediate future.

Rona Fairhead: At the moment, the small independents are the most vulnerable because there is 25% for them but with the WoCC, which is where all of the big consolidated players are now competing, it is getting very hard for the small independents to compete, and we need that flow of creativity in this country and the building of that talent. The plus side would be more is opened up for competition. An agreement with PACT extended the initial thing to include some of children's as well, so in fact there is probably going to be a lot more for the independents to pitch for.

Q238 Chair: I see you have quite a background in finance and banking yourself, so you would know a lot more than any of us about this. Would it not be a logical end game, if you are going to have a separate arm's length company called BBC Studios, to sell it off? You could list it as a company. We could all go and buy shares in BBC Studios and treat it as a completely separate commercial—

Rona Fairhead: No, I think if you look back—and that would go to a broadcaster/commissioner model, so no production commercial capability at all in the BBC, very much like Channel 4.

Chair: Or S4C.

Elan Closs Stephens: When you talk about S4C, it is also the news and public content provided by the BBC.

Rona Fairhead: The news and current affairs from BBC. I think that when you go down that route, you say, "What is the benefit of having production?" If the BBC is to remain as Ofcom sees it, as the cornerstone of the creative economy, then it needs some production capability because that is how the training builds. Equally, you look at how the market is working—and it is becoming a global market, particularly in areas like drama—what you see is more and more of the market is consolidating, so they do the production, they do the distribution and they sell on. The licence fee payer hugely benefits from that model because the BBC creates. The BBC then owns all of the content rights that can be sold and it gets fed back in and offsets the cost of the licence fee. So the issue, if you do that short term potentially good, is long term a really very bad outcome for the licence fee payer.

Q239 Liz Saville Roberts: We discussed earlier on, and you mentioned the Trust is concerned with—and this is raising the charter—the degree of portrayal of the nations. Of course we are talking specifically about Wales. You were also talking about production. You have the drama and Roath Lock have moved to Cardiff, and there are undeniable economic benefits associated with that, but that has not in itself in any way addressed the issue of Welsh representation on the screen? Obviously we are delighted to have this economic boost

in Wales, but that in itself is not sufficient for the BBC's remit to the people of Wales. How do we overcome that?

Rona Fairhead: I think it is things like service licences, we are saying, that should have a specific portrayal element—that there should be portrayal of the various nations. That is one way. Then any future regulator can hold to account on that basis, and although it sounds very operational, that is where the issue is. The changing of the way that commissioning is happening, to make sure that that portrayal happens, to make sure that that accountability can be operationalised, is the right way to do it. That is why we are pushing to say, “Put something more specific in those service licences,” and, operationally, the BBC needs to look at how it is commissioning to make sure that it is meeting that new accountability.

Q240 Liz Saville Roberts: While we are on this, there is another question that we missed unfortunately. The IWA recommended that the BBC create a national service licence for the nations, and that would include television, radio, online services, so that there is the means to vary and to respond to specific needs. How do you feel about that recommendation?

Rona Fairhead: There are pros and cons of that. The pro is obviously there is great clarity; it is in one place. The issue that you have for the BBC is that it is a creative organisation and you want to be able to give programme makers the ability to go and make the most creative programmes—the best education, the best children's, the best drama, the best comedy. What you want to do is avoid making the licences at such a level of granularity that all the BBC is doing is ticking boxes, because you will have service licences about each service, you might have them about different age groups and about different nations and regions. It is trying to get the balance right between too many service licences that just make it a check box exercise, which would be terrible, and making sure that you put in some accountability so it has bite. I think you could go a service licence way. Equally, you could embed, in the service licences that exist, specific portrayal requirements for Wales or the other nations.

Elan Closs Stephens: One of the things we have to be very careful about is that, although the service licence is, in principle, a way of accountability, and a good way of accountability, it must not become the ceiling; in other words, you have done Wales by the Wales service licence. We have to have some means of getting into the network stuff that is not necessarily covered by the current sort of service licences. If you had a service licence for Wales it might refer to Radio Cymru, Radio Wales, output from BBC Wales, online output from BBC Wales, and I think we have to be very careful that somewhere in some other licence there is regard to portrayal on network so that it is not just confined.

Rona Fairhead: Can I talk about the accountability as well? What we are encouraging is much more robust measures that not only address what the audience has as a consumer—the licence fee payer as a consumer—but what they get as citizens and what they get from the economic benefit to the country. I think there are various ways in which the BBC should be held to account, but ultimately the audience is looking for good programmes. At the moment they are generally happy with what the BBC is providing—not perfect: portrayal has to get better. I think it needs to give a little flexibility to make sure that you get the substance and the outcome that you want rather than having too many checklists.

Chair: We are running a bit short of time now. You may have one more question, Liz, but I think we would like to try to finish that topic off.

Q241 Liz Saville Roberts: There is one specific question in relation to news. It is six years since the King report recommended improving news coverage for the devolved nations. The BBC Trust says there still needs to be improvement. Is there a case for a “Welsh Six”? Also, how can we use the network—say, radio stations—more effectively and have a Radio 2 Wales version of news? We have a situation where there is a lack of accountability. There is a lack of plurality. We could talk about the role of the BBC in that, but the role of the BBC is essential in this.

Rona Fairhead: In terms of news and current affairs, the executive are consulting at the moment with the Government and the nations to agree what a good outcome could be and are going to come forward with their proposals. That should be coming out before the White Paper. My sense would be they are going to take on board some of the questions and work out within the budget, given what the audience is saying and given what they can do, what they are proposing. I agree with you on plurality. Part of the BBC’s proposal, as you will know, was to try to reach out to improve plurality of news and current affairs, particularly with regional press. Again, there is consultation with the regional press to make sure that, if the BBC can make its content more available, open up a database of some of its content that would be helpful to the regional press, and other ways to improve plurality, any democratic deficit identified across the country is addressed. The BBC is trying to find solutions to that and it is in its paper.

Q242 Liz Saville Roberts: That is certainly more than local papers. When we have a “Scottish Six” and in Wales we have five minutes, as we do have five minutes for London, and there is one—

Rona Fairhead: But there are various ways of plurality, one which they are trying to address. They are consulting on programming solutions as we speak and they will come forward with their proposals.

Elan Closs Stephens: We also have to look at audience requirements and audience needs. The 6.30 pm “Wales Today” is a very popular programme with audiences, so you have the cognisance of the needs and the appetite of the audience for different solutions. But I can assure you that the head of news and current affairs, James Harding, is coming to our Audience Council in a fortnight and I am sure the requirements of Wales will be made explicit by that council.

Chair: Thank you very much indeed.

Examination of Witnesses

Witnesses: **Ian Jones**, Chief Executive, S4C, and **Huw Jones**, Chairman, S4C Authority, gave evidence.

Q243 Chair: Thank you very much. I was thinking that as we know each other quite well, and you are both called Mr Jones, just on this occasion, that, much as I like formality, being a Conservative, it might be easier if we referred to Huw and Ian.

Huw Jones: Very happy.

Chair: Do feel free to call me David. I will ask, Liz, if everyone is ready, to start off. I do apologise, there are no translation facilities. Mae'n rhaid i ni wneud hyn yn Saesneg, os yw hynny'n iawn.

Q244 Liz Saville Roberts: Mae'n ddrwg gen i am hynny—mae'n teimlon'n rhyfedd iawn. Of course we know there has been much discussion about the £1.6 million DCMS cut, although we understand that there is something imminent, but it has been imminent for quite a while now in relation to that. Alongside that of course—and we were discussing this earlier on with the BBC trustees—is the cash-neutral situation for the BBC and the possibility of that reflecting and being in real terms a 10% cut to S4C. Is it fair to question whether the Secretary of State is performing the statutory duty in relation to S4C funding?

Huw Jones: On the statutory requirement on the Secretary of State to provide sufficient funding for S4C, I think that there should be some form of process by which that decision is arrived at. At the moment we have not reached the end of the road as to what S4C's funding will be because, in relation to the licence fee funding in particular, there are elements of uncertainty, elements that could go one way or another. But that is fundamentally the reason why we think it would be appropriate for there to be a review of S4C's needs so that there can be agreement—public discussion—as to what sort of service S4C should be providing in the coming years, given the challenges of technology, changing audience needs and so forth, and that the funding to fulfil that need should be appropriate and sufficient.

It is no secret that we have concerns that hitherto there has been no such review, despite the fact that when Jeremy Hunt made his change in S4C's funding in 2010 there was an undertaking that there would be a review at that point. There is unfinished business and we hope that we may see a review in due course that will have an influence on the ultimate funding available to us.

Ian Jones: If I can add to that, you used the word “reasonable” and I think that, regardless of whether the read-across is cash flat, minus 10%, there needs to be an element of reasonableness involved. That reasonableness equates to looking at the cuts that S4C has been dealing with since 2010, alongside the cuts that the BBC has endured. It is public knowledge that we have had a cut of around 36% during the same period the BBC has been cut by around 20%, and the question I would ask is whether it is then reasonable to have a read-across that is cash flat.

Q245 Chair: What broadly is the revenue you spend on commissioning programmes? It is probably hard for you to work out because you are paying other companies, but what percentage would you perceive is going on paying salaries for actors and how much is going on the technology that is used to bring that—

Ian Jones: I think that is a very difficult question to answer now but I am happy to look at it and come back on it.

Q246 Chair: The only reason I ask is because it has been suggested that the costs of the technology used have fallen markedly, even over the last five years. In principle, do you agree that that is a fair comment?

Ian Jones: I think that is an important point. The costs of technology have reduced and who knows what will happen in future as more and more platforms appear. But the key issue there is that the cost of technology has come down but we have reduced our commissioning costs by about 39% over a five-year period and drive more efficiency out of the relationship with the supply chain.

Q247 Chair: You have pre-guessed my question, which is: what have you done to deal with the reductions in funding? Is there anything else that you would add to that?

Ian Jones: I can tell you there is a long list of things that we have done. I will give you a precis. We have taken £65 million cash out over a period, and remember that there are ongoing efficiencies under the agreement between the BBC Trust and S4C's authority that will generate another 15% efficiencies between 2013 and 2016.

But there are things that we have had to change. We closed down our HD service in 2012. We didn't want to but we had no choice, and we are the only public service broadcaster, as far as I am aware, in the UK that does not broadcast on high definition. When S4C started in 1982 we had a target of 20% repeat programmes on screen. That is now at an extremely high level of 57%. Our overheads for our operations are at about 3.98% and that compares with a public sector average of 11.3%. We have had to commission fewer kids programmes and buy more because of the cut in funding. In drama, last year there were seven or eight months between original drama series and I think that is unacceptable for any public sector broadcaster. We relooked at "Pobol y Cwm" in conjunction with the BBC, and specifically the "Pobol y Cwm" omnibus, and we agreed that we would cancel the omnibus and use the money to generate more drama programming. Our staff levels have come down dramatically. At the high point our staff levels were around 220 people. We are now down to just under 130. We have made a number of changes and the changes, in terms of the independent sector and the supply chain, we could not have achieved without the strong partnership we have with the sector.

Q248 Mr Williams: Some of us are a bit long in the tooth and have been on this Committee for quite a long time, and you may recall that we had an inquiry into S4C in the last Parliament. It is a devil's advocate question; I am not terribly comfortable with it myself. It was asserted at that time that within the authority there were issues of leadership at a critical time then, in 2010, when funding and governance needed to be addressed. There were big issues at that time, and I was going to ask you generally, and maybe specifically, what was learnt for the leadership of the organisation—and you are the leaders, gentlemen—between 2010 and where we are now?

Huw Jones: I think very specifically the review by Sir Jon Shortridge of S4C's governance structures gave very sound advice as to how the organisation should be run, and the fact that almost all those recommendations have been implemented speaks for itself. I think the structures we have now are appropriate in that, although it is a single body, there are differing functions within that body. The non-executive members are there to scrutinise, to approve strategy, to approve budget and to appoint the chief executive. The chief executive then appoints the remainder of the team and gets on with the process of delivering the service, commissioning the programmes and reporting to the non-executive authority members who are there to scrutinise on behalf of the public.

I would like to think that the constructive way in which that has been undertaken, since Ian and I have been working together, is proof that it is a system that works and that the results, hopefully above all, are seen on screen.

Q249 Mr Williams: Thank you. I preface my next bit by saying it is an awkward question but, at the end of the day, we are talking about taxpayers' money and, for those of us around this table who feel very strongly about the role of S4C, the issue does need to be addressed. I think many of us—all of us—are confident about the professionalism and the product of S4C and the important contribution it makes to the nation, but it is important to ask the leadership question, although it is more of an historic question rather than a 2015 one.

Ian Jones: Can I add to that that I feel that it helps me enormously that Huw and the authorities scrutinise what we do, challenge everything, question everything, because it enables me and the team to work in a more efficient way. I think we have a very transparent process in terms of the way we work and I feel very comfortable with the current structure and process.

Q250 Liz Saville Roberts: We were talking earlier of the BBC, about governance, the present situation of the BBC and the future. Does the status quo serve us well as it stands in the relationship between DCMS, the BBC Trust, BBC and S4C? With one eye to the future and knowing that that is highly likely to change with David Clementi's review, what would be the ideal model here?

Huw Jones: It would be fair to say that when the 2010 change was mooted there were many concerns that it might equate to S4C losing its independence, and there was quite a tricky circle to be squared—is that the right phrase?—in recognising the BBC Trust's duty of accounting for the way the licence fee is spent and, on the other hand, to protecting and ensuring the continuation of S4C's operational, managerial and editorial independence. The way that was achieved was in the form of the operating agreement between the S4C authority and the BBC Trust, which is still current and runs until the end of March 2017. But importantly, the presence of a Welsh trustee on the BBC Trust made it possible for that person—Elan, who you have just been speaking to—to be appointed to the S4C Authority and be a very effective bridge between the two organisations. We certainly feel that the relationship has worked well. It has been in operation for coming up to three years now. Alongside that there has been a joint partnership board created with the BBC executive, which has also worked very well. But it is that ability for us to speak directly to the BBC Trust and for the trustee for Wales to be there representing S4C to the BBC and representing the BBC to S4C that has worked very well.

The question of what happens if there is no BBC Trust is one that exercises us somewhat because of the effectiveness of the situation that we have lived with so far, particularly I think if there were to be a structure on which there is no Welsh representative at the highest level. Then there are two separate questions: what exactly is our relationship and what exactly are our means of communication? What is the relationship with that body? In a way it is difficult to go into this in detail without knowing exactly what model we may be looking at.

We have given evidence today to Clementi. I shall be seeing him on Wednesday, as it happens, to discuss further, but our concern is that if there is a unitary BBC board and that is, in effect, the BBC executive, then we have concerns about whether we are required to

have our relationship with that board—as opposed to an intermediary board, whether you call it OfBeeb or whatever—or indeed with Ofcom. Our concern lies around the fact that the present operating agreement has a clause in it, which is the in extremis clause in a way. If we are seen to be not spending the money in accordance with the operating agreement, the BBC Trust in extremis has the right to withdraw the funding.

It would be a different situation if the BBC executive, which would be the beneficiary of any withdrawal of funding, should make a decision off its own bat if it were to have any discretion in relation to S4C funding. So that is our concern. There may be mechanisms that can overcome that or there may be other models.

Q251 Liz Saville Roberts: When we were asking Rona Fairhead earlier on—and I appreciate that she is not going to be deciding what the format of the unitary board is—whether she anticipated that there would be representatives from the nations, I did not get the impression that she felt particularly strongly in that direction. Would there also be concerns, in the sense of the relationship between S4C and OfBeeb? A regulator has one role of work, which is that they are not monitoring. They are not involved in decisions that are made day to day; they catch up when things go wrong afterwards. What is important is the day-to-day significance of S4C, and in fact the wider question of BBC and Wales, and that is what was exercising us earlier on as well.

Huw Jones: My fundamental approach to this is that S4C has been created as an independent authority, and it has the duty to ensure the appropriate spending of public funds for the purpose for which it has been set up. It has a longstanding process of accounting to the Secretary of State and to Parliament through the annual report and has been called to account. The situation in respect of the BBC Trust has been created because of the funding shift from Government funds to the licence fee. If a mechanism can be found by which that licence fee funding comes directly to S4C, or comes through another intermediary body, it is the terms on which that money comes that is important, and I think there are ways of dealing with that.

Q252 Chair: What is suggested I think has been suggested before. Are you saying that it would be quite possible to cut the BBC out of this altogether and that the licence fee money goes directly to S4C? If you are suggesting that, would you suggest that that might be quite a good thing?

Huw Jones: We are not proposing the change to the BBC governance.

Q253 Chair: No. If that were proposed, would you see that as a good thing or a bad thing?

Huw Jones: It is difficult for me to say that S4C standing alone as an authority is not a model that works, because that is the model that has existed since 1982. At the same time, we recognise the need to work closely and well and constructively with the BBC for the benefit of licence fee payers and viewers.

Q254 Chair: If the licence fee money went straight to S4C, that would not affect your working relationship with the BBC?

Huw Jones: It would not need to. We would understand the concerns that the BBC might have in that regard, which is why I am choosing my words carefully, because we really do appreciate the relationship that we have had with them. I think it is worth mentioning that

things like having access to the iPlayer and so forth have come about in the most recent period, which have been of great value to us. We certainly do not want to do anything that jeopardises the benefits of that sort of operation, but if the Government's decision in respect of the BBC's governance has a knock-on effect on S4C, what we need to do more than anything else is to ensure S4C's operational, managerial and editorial independence is protected.

Q255 Chair: Good. Those are well chosen words, if I may say so. I think you have touched on this a bit, but would you welcome a separate review into S4C and what would be the advantage of that?

Huw Jones: Yes, we think it is going back, as I say, to Jeremy Hunt's undertaking. We would refer as well to this Committee's recommendation in its last report back in 2010-11. It also recommended that there should be a review. It seems to me to be a common sense principle that—in the same way as you have a charter review every 10 years or so—for an organisation that performs an important function in Welsh life, there should be the opportunity to review specifically its strategies, its financial needs and the range and scope of the services that it should be providing, bearing in mind that things change—technology changes, audiences change—and it would be timely and appropriate to do that before funding decisions for the future are taken.

Q256 Mr Williams: Are you happy with the current statutory requirement for BBC Wales to provide 520 hours of programming to S4C per year, and should there be a requirement to pursue different content beyond traditional linear programming?

Ian Jones: The 520 hours at 10 hours a week has been in place since 1982. It works extremely well. It is predominantly news, current affairs, "Pobol y Cwm" and sport. I know that BBC Wales's budget has been trimmed for that 10 hours over the years. We would be very concerned if it was trimmed further, and it is heartening to hear Tony Hall saying, in I think it was a speech around the time of publication of "British, Bold, Creative", that the nations would be cut less than other parts of the BBC. I would prefer that the 520 hours focuses on the content that it supplies at the moment, because it is an integral part of our schedule and offering. It is an important part of our offering, but as with all digital content, you can spin content off your main content on television to create digital offerings online. You could do that within the current offering from the BBC.

Q257 Liz Saville Roberts: One area that we have discussed quite often with broadcasting in this review is how to measure viewing figures. That is particularly significant for S4C, which has a smaller audience reach evidently than some of the other providers. Are there other ways of reaching an estimation of viewing figures, bearing in mind the digital platforms are so much more significant now?

Huw Jones: The question of how many people are using the service is a legitimate question. Not only is it important from public accounting terms, but it is also important in programme commissioning decisions to know which programmes have been well received and which less so. I agree with you, I think the question of the accuracy of the figures that we deal with and their limitations is something that is regularly discussed at the authority. We all know that the sample size is small and we all know that there is volatility inherent in that, which means that looking at figures for one overnight transmission of a

programme will be very susceptible to volatility, whereas looking at something over a longer period of time would be more accurate.

The second element is that, as you say, digital viewing is not contained in those figures, so that needs to be taken into account all the time given that obviously this is where the increase in viewing is taking place, mobile viewing online of all kinds. The third thing is that it is not just viewing figures, is it? It is also appreciation and impact. This is why we go to some trouble in the annual report to discuss S4C's performance under nine different headings, which include neat viewing figures but it also includes context. I think it is one of the key reasons for the importance of an S4C Authority, which is a standalone authority, to get some degree of expertise in this matter and come to a view as to whether things are working or not.

Q258 Mr Williams: I don't think any hearing of S4C at this Committee has ever not mentioned the issue of young people and education in particular. Do you think that message is understood by the people you meet, the civil servants and Ministers you meet at DCMS, other than vague gestures of support, that it is an integral part of education policy now in Wales and goes to the heart of cultures and communities?

Huw Jones: I have no reason to think that it isn't understood, but I think that is probably a question that would be better directed at the civil servants concerned. One of the things that we constantly try to do is make sure that S4C's broader impact is fully understood. As you say, the impact on education and on the ability of young people, children in particular, to acquire the language at an early age through use of the children's service Cyw, is very well recognised in Wales. It is part of this broader mission that we have and that we want to take on board as effectively as possible.

Q259 Liz Saville Roberts: Is S4C's statutory status as a television channel working against it developing in the way that technology is inevitably leading us?

Ian Jones: That raises the question of associated remit. Associated remit was still entrenched back in 1981 in statute and it is to provide a television service predominantly through the medium of Welsh in peak-time hours. As Huw mentioned earlier, the world has changed since 1981-82. We were one of three or four broadcasters at the time. Now there are hundreds of broadcasters and hundreds of other platforms. I would argue strongly that the remit needs to be changed—needs to be looked at—and perhaps an independent review of S4C is the way of looking at that remit.

Huw Jones: What you come back to all the time is that the remit, as Ian says, was set in place in 1982. Everyone understood what television was—it is a channel, it looks like that—and now what is it? It is all these things and they happen in English. In the UK your choice and your ability to access different elements of what this television thing is is enormous. In Wales we have just the one, just the S4C.

Ian Jones: Can I add to that that digital is not in our remit, which quite frankly is ridiculous in this day and age. Channel 4's remit and purpose was changed—I think it was in the Digital Economy Act of 2010-11. Channel 4 and the BBC have wider commercial powers than us and so the remit needs to be looked at. I don't think it is fit for purpose for today and tomorrow.

Q260 Liz Saville Roberts: Which does lead perhaps to my point of view that a review is essential for us to address these sorts of questions, because otherwise we are just talking about them in the abstract here in this Committee.

Ian Jones: It is one of the key arguments, yes.

Q261 Chair: Would you like to see S4C devolved to the Welsh Assembly?

Huw Jones: We don't have a view on this matter, other than to try to point out what the implications are, and primarily we start with the funding implication. At the moment the responsibility sits on the shoulders of the UK Government to provide, whether directly or via third parties, and to ensure that there is sufficient funding. The question of how that funding would be secured, if we were to become something different, is a matter for others to consider.

Q262 Chair: You do not sound very confident that you would get a better deal under the Welsh Assembly than you do under the British Government.

Huw Jones: It would depend entirely where the money lies, how it is calculated, and where it comes from and so forth.

Liz Saville Roberts: As with many aspects of money.

Mr Williams: Mr Ian Jones was very clear when we were talking just now about S4C's statutory remit and the need to broaden that and, in particular, the issue of digital media. I think you have answered the question of where you want to go. I was glad to hear what you had to say. I think we have answered that question.

Q263 Liz Saville Roberts: We have talked quite a bit about the changes in technology evidently since 1981, but are there particular challenges that other providers are now moving into—you mentioned high definition, for example—which are going to prove a challenge or an opportunity into the future that we should be aware of?

Ian Jones: I think there are many, many opportunities as platforms evolve. What we need is to have sufficient finance to enable us to be ubiquitous, to make sure of our brand. As the market fragments even further, as more platforms appear in future we need to be where those platforms are and that costs, but I don't think we have a choice. We have to move with the times and there are opportunities of targeting audiences and some of the opportunities relate to personalisation of services so that you can target individuals as opposed to a scattergun approach to the whole audience. You can provide things for specific parts of your audience. You can interact with them better. I think we need to do all of that and more, but the primary requirement, I would think longer term, is that, however technology develops, if this is the only Welsh language channel anywhere in the world, why shouldn't we be on all of those platforms and why shouldn't we be ubiquitous?

The other key theme that one comes back to all the time—from audiences when we hold public meetings, do research—is quality. Whatever we do, across however many platforms we need to go on, what people want to see is content of high quality and we should not jeopardise that in any shape or form.

Chair: On that very positive note—and I do not think you do jeopardise it, because I think the quality is very good—I say diolch yn fawr iawn.

Examination of Witness

Witness: **Dr Ruth McElroy**, Centre for Media and Culture in Small Nations, University of South Wales, gave evidence.

Chair: Thank you, Dr McElroy, for coming to give evidence.

Dr McElroy: Thank you—diolch yn fawr.

Q264 Mr Williams: We are going to talk about plurality and how concerned you are with the range of voices in the Wales media landscape at present. The question is: are we over reliant on the BBC?

Dr McElroy: I do have concerns about plurality, indeed, yes, and I think that, although the focus of your inquiry here obviously is broadcasting, we can only fully understand the question of plurality if we also think about the wider media landscape. I suppose, in that sense, plurality is of a particular concern because we do not have the same kind of national press that other parts of the country benefit from, so we are hugely dependent on a very small number of providers. It is probably worth emphasising the importance of ITV Wales here because, without them, there would be no plurality at all in terms of television news. We talk very frequently about BBC, and quite rightly so, but I think ITV plays an important part in delivering plurality to Wales.

We focus a lot on the BBC because we depend significantly on the role that they have, and perhaps another broadcaster that we ought to speak about more frequently is Channel 4.

Q265 Mr Williams: I want to ask you about another critical part of the media landscape, and that is local newspapers and whether you think it is fair for the BBC to try to work with local newspapers to cover stories. Does that have an impact on plurality as well?

Dr McElroy: There probably are opportunities for local newspapers potentially to work with the BBC, but I think that goes back to questions of ownership. I think less about the local press in a traditional sense but also to think about hyperlocal and the kind of forms of support for hyperlocals, which are usually run on a shoestring with very small numbers of people, many of whom are not themselves trained journalists, and to provide content in that way. There might very well be scope for support from the BBC in areas like training that could perhaps be delivered alongside the National Union of Journalists, for example. There is a kind of developmental role that that relationship could have to extend plurality. I don't think that hyperlocals in and of themselves are going to compensate for the huge loss of the local press that we have seen, however. I think the issue here is how you would get the relatively small number of owners of the local titles in Wales now to collaborate effectively with the BBC in sharing some of that content.

Q266 Chair: Why should they collaborate with the BBC?

Dr McElroy: Indeed.

Chair: Why would they want to?

Dr McElroy: Why would they want to, yes, which is why I can see that ventures that have a more obviously community role where there is an absence in the marketplace, which is where a lot of hyperlocals have emerged, might more readily be a place where that kind of collaboration could fruitfully happen.

Q267 Mr Williams: Could you characterise a hyperlocal for me?

Dr McElroy: I think the *Port Talbot MagNet* is one of the best examples of that. It is where you have initially usually digital-only local newspapers being created, very often because there has been a closure of local titles and there is basically a local news vacuum in an area.

Q268 Mr Williams: Yes, I know what you mean. We have a very good one, “Llais Aberystwyth”.

Dr McElroy: Many, yes.

Liz Saville Roberts: They have been around for a very long time.

Dr McElroy: Indeed, absolutely, so there are different models of that and I think there are ways perhaps of collaborating and, as I say, it is as much in areas of training and of understanding of media law, for example, in those areas because you are not talking very often about fully trained journalists.

Q269 Liz Saville Roberts: Another aspect of providing local news is the present requirement on FM to provide seven hours of locally-related material, and we understand that there are some commercial radio groups, particularly switching to DAB, who are very keen on not providing those seven hours further. What is your view on, say, the potential removal of the requirement on commercial radio stations of producing this local aspect?

Dr McElroy: That is a huge area of concern, given how important radio is as one of the vehicles for delivering news content and for us having that sense of being part of Welsh civil society. There is a real risk here that what on the surface might seem like a shift in technology actually brings about quite a big cultural political change. I think that it is incumbent on us to think about whether that shift in commercial content, that recycling of content that ends up happening, diminishes the quality of the experience for listeners in Wales.

Q270 Liz Saville Roberts: Is it a particular Welsh issue that perhaps might not be relevant to commercial radio stations in England?

Dr McElroy: I think that it might be particularly acute in Wales because of the reasons we were talking about earlier—the wider issues around plurality, for example.

Q271 Chair: You are obviously concerned about the possibility of cutting funding to S4C. Would you accept, though, that there are savings that can be made and that the costs of technology have come down, for example?

Dr McElroy: I think that it is evident from what S4C has done in the past five years or so that there has been space for efficiency gains. I think that many of the changes in staffing, the kind of shift in costs per hour of production, has brought very significant savings. We might get to a point where there is a difference between being able to make those

reasonable savings and those that might then start to genuinely impact on the quality of the provision. That is probably the process and the area where the debate lies.

Q272 Chair: Just to play devil’s advocate, I think that S4C was expressing the same concerns about cuts the last time round when we discussed this a few years ago, and yet the quality is still there as is shown by things like “Y Gwyll”. Isn’t there a part of you that thinks, “Well, they would say that anyway”? Not to disrespect them, they are a great organisation, but no organisation wants to see cuts, do they?

Dr McElroy: No, but I think that is probably where the independent evidence from bodies like the IWA, through some academic research that has pointed to the concerns over S4C’s future, might attest to. It is not just the organisation itself, which as you say might obviously have a biased position in that. For example, there is quite clearly a growth in the percentage of repeats that many of us as viewers would take as a measure of quality of provision.

Q273 Chris Davies: Apologies for being late. Dr McElroy, I am throwing very much a grenade into the questioning today, if I may, and saving the best to last. You are an academic in media studies and you have looked at S4C and how the Welsh TV process has progressed since being formed 25 years ago probably. I know we are where we are now, but if you were starting with a pen and paper, would this have been the direction that you would have gone in? I remember when I was growing up—and it seems a long time ago now—you had the choice on the BBC and I am sure, if I remember correctly, on ITV, or HTV as it was then, of watching Welsh programmes on those broadcasters. Then, quite rightly, we went down the route of S4C, but with hindsight was that the right direction?

Dr McElroy: Hindsight is a great thing.

Chris Davies: It is.

Dr McElroy: Let me answer as an academic that you cannot know the future, much as the future just would love to give the impression that you would. I think that that set-up reflects the situation in the early 1980s. There is still a great deal to be said for having the Welsh medium service that you get from S4C and that it is all located within S4C. To my mind, the really big change that has happened and that we—all of us, as viewers, scholars, policymakers—are still grappling with is the change in terms of the digital revolution and how that then drives the production and export of content and how content circulates internationally, globally. It is not just a question of what the relationship between BBC or ITV or S4C would have been, but to think about, “What is the relationship with Netflix? What is the relationship with Amazon Prime?” If we are trying to think about how we would have a sense of what the future might look like, that is where I think the conversation needs to go.

Q274 Mr Williams: Has BBC Wales suffered under the current governance structures and how do you feel this could be improved?

Dr McElroy: There have been very substantial cuts at BBC Wales and there is no doubt that has clearly impacted on the range of provision that Welsh viewers can now enjoy from BBC Wales. Largely, there has been a protection around news but obviously we are in a position now where we, as Welsh viewers, cannot turn on the television and find an

English language Welsh arts programme, for example. We are not in the position of being able to have a regular continuing drama through the medium of English, so I think that has been a real detriment. That comes partly from the consequence of cuts but it is also a question of policy within the BBC as well.

Q275 Mr Williams: Do you believe that creating a national service licence would benefit Welsh production?

Dr McElroy: I think that it may do, but it is only one route to think about that. A more productive way is to think holistically about that. If you are trying to support it and think about what the future of independent production in Wales is and how commercially that can be developed and exploited, I think that you have to think about the whole commissioning and supply chain, and also the relationship that independent production companies in Wales have and the access they have internationally.

I would go back to the point I made earlier about Netflix and Amazon Prime. To that extent I think that you will find there are other small nations that are grappling with this very thing. Very often these kinds of video-on-demand services will come in with money, but they will come in with money quite a long way down. They will not be at the early development stages, and I think the public service broadcasting review that Ofcom published last year showed a very big difference in the generation of original content between public service broadcasters and others. Almost all of the money that comes in from non-PSBs overwhelmingly is in sports programming, which is not a diverse diet, important though sports are for us on television.

Q276 Mr Williams: A final one in this section from me is the relationship between the BBC and S4C—not just the relationship, but the operating agreement. Would you like to see the terms of the existing operating agreement continued into the next charter period? I suppose that is asking your assessment of that to date and there are two things to focus on. First, there were the concerns that some of us voiced in 2010, which may have been disproved, about independence but also fears that have perhaps been realised about the funding situation.

Dr McElroy: In many ways it has delivered quite well in the situation that those broadcasters found themselves in. Exactly as you say, I think it is perfectly legitimate still to have concerns about maintaining editorial independence in the context of plurality and so on, less so necessarily in news but in wider areas—and I suppose that is where some of the BBC Studios development would particularly kick in—so, yes, that would be my main concern I think. It is more a case of what the future relationship would be, how any operating agreement in the future would be arrived at between S4C and whatever body they were negotiating with I suppose.

Q277 Chair: Or perhaps nobody if the money went straight from the licence.

Dr McElroy: Indeed.

Q278 Chair: Would that be a good thing? S4C were a bit hard to draw on that one, for obvious reasons I suppose.

Dr McElroy: It is an interesting idea. It would be all about how you would see a clear line of accountability, on how a decision would be made as to the proportion of the licence fee that would be given to S4C and how that would then be monitored thereafter.

Q279 Chair: Presumably that is already done by the Government, isn't it?

Dr McElroy: It is but presumably we are going into unknown territory here, aren't we, where there is a good degree of hypotheticals?

Chair: Yes.

Q280 Liz Saville Roberts: That leads on nicely to the next question about answerability, scrutiny. The IWA has made recommendations in relation to sharing responsibility between the broadcasting media, between the UK Government and the devolved Administrations. There are two specific areas: public appointment of Welsh representatives to the governing bodies of the BBC and S4C and Ofcom should be made, together with the relevant Welsh Minister as well as the DCMS to the sort of bodies that we have; secondly, that the BBC and the S4C Authority and ITV Wales should be laying annual reports before the National Assembly for Wales and that there should be scrutiny happening there. What do you think of the IWA's proposals and scrutiny in general between the UK Government and the devolved Administrations?

Dr McElroy: I should say that, as I am a member of the IWA's Media Policy Group, I fully support the recommendations. I think I should be prepared to say that. That is probably a point we have arrived at: that there needs to be—as I put in my written evidence—a more consistent monitoring, not just in the sense of receiving annual reports but an active ongoing engagement within the Welsh Assembly with the broadcasters and possibly beyond broadcasting as well.

Q281 Liz Saville Roberts: What are we lacking at present? What is missing from the present mix, because I think we need to qualify that?

Dr McElroy: I think what is missing is a clear sense that the Welsh Assembly is regularly responding to the changing media landscape and, every bit as importantly, that the broadcasters—including those that are making decisions outside of Wales but which impact very clearly on Wales—feel that they are answerable to the Welsh Assembly. It is in both directions really.

Q282 Chair: One ought to assume that Roath Lock has been a good thing for portraying Wales on the television. Some say it has not made a lot of difference. What would you say, Dr McElroy?

Dr McElroy: I would say it has not made much difference. The research that I have done with colleagues, Caitriona Noonan and Steve Blandford, looked at this. We were interested to see what was happening with Roath Lock. The story was quite clear from the interviews that we conducted, and we interviewed people who were working in the industry at a range of different levels. We interviewed people from the BBC and the Welsh Government. There is a tremendous degree of support for Roath Lock. I think that there is a sense that it has been a game changer in putting Wales on the map as a place for high quality drama to be produced, but there is no direct correlation between the location of production and onscreen representation.

Q283 Chair: No, but one would think that in perhaps the longer term, or even in the medium term, the fact that it is there in Wales is going to make it more likely that commissioners are

going to look around and say, “We could incorporate this or that. We have these people here in front of us”.

Dr McElroy: There is no evidence to support that at the moment, so based on the evidence I would say that I think that might be a very positive aspiration to have but I would not feel confident of it happening without some other kind of intervention.

Q284 Liz Saville Roberts: But there is a real challenge about a London-centric perspective. I was looking at the “British, Bold, Creative” and I was surprised that they were praising “Peaky Blinders” because it is set in Birmingham. I thought, “How is that regional representation?” There was a real perception that somehow what happens in the south-east is the reality for the rest of the country. How do we address that?

Dr McElroy: One of the things that we have to do is in the same way that the BBC has been very effective in setting an agenda for itself of change and moving production outside of the M25. It has managed to achieve its own targets. I think it rather suggests that there needs to be another set of targets in terms of onscreen portrayal because it shows that the BBC can well deliver when it is required to do so.

Q285 Mr Williams: I was going to ask specifically—and you touched on some of this—how can the BBC’s commissioning process be improved to ensure that there is a better representation of Welsh life on screens in Wales? I should say more generally as well; I think there would be an appetite beyond Wales.

Dr McElroy: Absolutely. I think that there is a real question of needing to decentralise commissioning, the idea that one individual in London decides on the drama, for example, that is being produced. Of course there are all sorts of problems, not just for nations and regions, but I think that considering the degree of autonomy that heads of drama can have in the different nations is one of the obvious ways in which you could make an intervention in that commissioning process. I don’t think that that change will come about naturally. I think it does require an intervention in the supply chain.

Q286 Liz Saville Roberts: What is your view on BBC Studios and the possible impact on small independent producers in Wales?

Dr McElroy: It is very difficult to fully assess what its impact will be, not least because, in general, the picture that is outlined in the BBC Studios documentation does not fully account for the importance of independent production companies that are largely producing Welsh medium content. There is a big element of the indie ecology that is missing in some of the thinking there. The relationship of accountability of the director of BBC Studios to the Trust is quite clear, but where commissioning and Welsh language content would fit in that is far from clear. The rationale that the BBC has put forward for the studios tends to focus on many of the much larger indies, the kind of super indies that have been bought by broadcasters. That is not necessarily representative of independent production companies in Wales that are still fairly small to medium-sized. Tinopolis is obviously a big exception to that rule. I would be quite concerned about what the impact would be but, as a researcher, I would say that is something that ought to be monitored and reviewed in the process of considering the proposals that are being put forward by the BBC.

Q287 Chris Davies: In your role as a lecturer you faced a very long past. You look into the future. You have your students in front of you. What are you telling them and what are you advising them as far as Welsh media is concerned? They are looking to go out into the big wide world, after being with you, to get jobs in the industry and so on. Are you telling them there is a good future and Welsh media is a great place to be and you will have a full career for the next 20, 30 years in Welsh media or do you see it in another direction?

Dr McElroy: What I am telling them is probably the same as anyone who is teaching students in the creative industries, more generally, that the careers that they hope to have are likely to be freelance. They are likely to face numerous short-term contracts. They are likely to face an extremely competitive environment and they are unlikely to have anything like a traditional stay with one broadcaster and work for many years in that way, and that the most important quality they have is to be flexible and to be prepared to try to negotiate that. At the same time, it is something that does concern me about their futures because you look, for example, at what happens to women in these industries, and the majority of my students are female. I know that come the point they are in their 30s and have children, a significant percentage are going to be lost, and that is an area that I think we have to recognise and have to think very carefully about.

Chair: Dr McElroy, diolch yn fawr iawn am ddod.

Dr McElroy: Diolch yn fawr iawn i chi.

Chair: Thank you very much.