

Welsh Affairs Committee

Oral evidence: [S4C review](#), HC 1207

Tuesday 18 December 2018

Ordered by the House of Commons to be published on 18 December 2018.

[Watch the meeting \(as spoken\)](#)

[Watch the meeting \(in English\)](#)

Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Guto Bebb; Chris Davies; Susan Elan Jones; Ben Lake; Jack Lopresti; Liz Saville Roberts.

Questions 104-154

Witnesses

[I](#): Huw Jones, Chair, S4C Authority, and Owen Evans, Chief Executive, S4C.



Examination of witnesses

Witnesses: Huw Jones and Owen Evans.

Q104 **Chair:** Prynhawn da. Hoffwn groesawu Owen Evans a Huw Jones i'r Pwyllgor Materion Cymreig. Diolch yn fawr am ddod. Yn amlwg, mae gennym ychydig o gwestiynau heddiw am waith S4C dros y flwyddyn ddiwethaf. I ddechrau, pa fath o waith sydd wedi cymryd lle i weithredu argymhellion adolygiad y Llywodraeth?

(Translation) Good afternoon. I welcome Owen Evans and Huw Jones to the Welsh Affairs Committee this afternoon. Thank you for coming. Clearly, we have some questions for you today about S4C's work over the past 12 months. First of all, what work have you undertaken to implement the recommendations of the Government review?

Huw Jones: Mae yna ddau fath o argymhelliad: argymhellion strwythurol ac argymhellion ynglŷn â'r gwasanaeth. O ran y rhai strwythurol, y prif argymhelliad yw ein bod yn cael ein hail-gyfansoddi fel bwrdd unedol. Mae angen deddfwriaeth gynradd i wneud hyn, felly ry'm ni'n disgwyl y ddeddfwriaeth gynradd pan fydd amser seneddol ar ei chyfer.

Argymhelliad y Llywodraeth oedd ein bod ni, tra'n disgwyl am y ddeddfwriaeth, yn gweithredu fel bwrdd unedol cysgodol. Ry'm ni'n gwneud hynny ac wedi sefydlu ein hunain fel bwrdd unedol cysgodol. Mae gennym reolau sefydlog newydd sydd yn darparu ar gyfer hynny. Mae Owen, fel prif weithredwr, nawr yn cael ei ystyried yn aelod o'r bwrdd cysgodol unedol. Bydd dau swyddog arall yn cael eu penodi yn fuan i fod yn aelodau o'r bwrdd cysgodol. Felly ry'm ni'n hapus ein bod yn gweithredu ysbryd yr argymhelliad yna tra'n disgwyl y ddeddfwriaeth fydd yn ail-gyfansoddi'r corff.

(Translation) There are two types of recommendations: structural recommendations and recommendations about the service. In terms of the structural recommendations, the main recommendation is that we are reconstituted as a unitary board. That requires primary legislation, so we are expecting that primary legislation when there is parliamentary time for it.

The Government's recommendation was that, while we were waiting for that, we operate as a shadow unitary board. We are doing so: we have established ourselves as a shadow unitary board, and we have new standing orders in place that provide for that. Owen, as chief executive, is now considered a member of the shadow unitary board. Two other officers will be appointed shortly as members of the shadow board, and so we are happy that we are implementing the spirit of that recommendation while we await the legislation that will reconstitute the body.

Q105 **Chair:** Unrhyw beth arall i ddweud, Mr Evans?

(Translation) Anything else to say, Mr Evans?



HOUSE OF COMMONS

Owen Evans: O ran ochr y gweithgaredd, i gymryd yr un fath o batrwm ag y mae Huw wedi sôn amdano, yn strwythurol ry'm ni wedi newid pethau yn fewnol i ni allu gael y capasiti i weithredu argymhellion yr adolygiad. Dwi wedi creu tîm newydd sydd yn ffocysu yn bennaf ar faterion digidol. Dwi hefyd wedi dod â mwy o gapasiti i reoli prosiectau fel ry'm ni'n mynd ati i weithredu'r pethau yma o ddifrif.

O gwmpas y pethau digidol, yn gyntaf o gwmpas y gwasanaeth, dwi wedi edrych ar isadeiledd. Mae Clic wedi dechrau cael ei ddiweddarau ac mae gennym gynllun nawr ar gyfer y 18 mis nesaf i fynd â Clic o ble mae e nawr i wasanaeth sydd yn gallu cystadlu efo iPlayer, Netflix a phethau felly. O fewn hynny, dwi'n edrych ar gynnwys ar-lein hefyd. Roeddwn i'n falch i weld bod bocs sets gyda ni ar-lein am y tro cyntaf wythnos diwethaf a bod hyn wedi cael ymateb da iawn. Wrth gwrs, pwrpas defnyddio Clic yw cael mwy o ddata am sut mae pobl yn gwyllo S4C. Dyna'r isadeiledd sy'n cael ei dyfu o dan y wyneb, i ni ddeall yn union beth ma pobl yn gwyllo ac eisiau gwyllo, a'n bod yn gallu marchnata atyn nhw, un wrth un. Ar ben hynny, wedyn, mae'n rhaid i fi ddadansoddi os ydyn ni'n gwneud y pethau iawn o gwmpas y buddsoddiad digidol.

(Translation) Just looking in terms of activity, taking a similar pattern to Huw, structurally we have changed things internally so that we have the capacity to implement the review's recommendations. I have created a new team that focuses mainly on digital matters. I have also brought more capacity into project management as we start implementing these seriously.

Around digital, first of all in terms of service, I have looked at infrastructure. Clic has started to be updated; we have a plan over the next 18 months to take Clic from what it is now to a service that can compete with iPlayer, Netflix and so on. Within that, I am looking at online content as well. I was very happy to see that we have box sets online from last week, and they have had a very good response. The purpose of using Clic is to get more data about how people are viewing S4C. That is the infrastructure we are developing under the surface, so that we gain an understanding of what people are watching and what they want to watch, and we can start marketing to people, one by one. On top of that, we need to analyse whether we are making the right digital investment.

Q106 **Chair:** A fydd hi'n bosib gweld S4C ar Clic mewn gwledydd eraill?

(Translation) Will it be possible to see S4C on Clic in other countries?

Owen Evans: I can give the official and the unofficial answer. The official answer is no, because that will depend on what rights pertain to the programmes contained on Clic. I am aware that people use devices such as virtual private networks as a tunnel into the UK, and watch S4C and other content.

Chair: I think we would welcome our friends in Patagonia being able to watch S4C.

Q107 **Ben Lake:** I aros gyda Clic am eiliad, roeddech chi'n sôn bod camau eraill



HOUSE OF COMMONS

dros y 18 mis nesaf o ran datblygu Clic. Yn ystod y 18 mis yna, ydych chi'n rhagweld bydd gwylwyr a defnyddwyr yn gweld gwahaniaeth neu yw e'n rhywbeth sydd yn paratoi'r ffordd ar gyfer newid mawr ymhen blwyddyn a hanner?

(Translation) Let's stay on Clic for a moment. You said there were other steps to take over the next 18 months in developing Clic. In those 18 months, do you expect viewers or users to see a difference, or is it something that is preparing the way for a big change in a year and half's time?

Owen Evans: Na, bydd pobl yn gweld gwahaniaeth mis yma. Am y tro cyntaf, dros y Nadolig mae 10 bocs set ar gael trwy Clic yn unig, ond bydd gwasanaethau newydd yn cael eu lawnsio trwy Clic bron fesul mis. Er enghraifft, os ydych chi'n mynd ar iPlayer ar y funud ac yn dechrau gwyllo rhywbeth hanner ffordd trwyddo, chi'n gwasgu botwm a mae'n mynd nôl i'r dechrau. Mi fydd soft launch mewngofnodi yn digwydd mis yma a dechrau mis nesaf. Bydd hyn yn ein galluogi i wneud hard launch, felly bydd rhaid i chi fewngofnodi ymhen cwpl o fisoedd. Mae hyn yn meddwl, unwaith rydych chi wedi cofnodi unwaith, os rydych chi'n gwyllo rhaglen ar Clic ar y ffôn neu ar gyfrifadur adre neu ar y prif sgrîn, ble bynnag chi'n pigo lan y rhaglen yna, bydd yn dechrau ble'r oeddech yn ei wyllo o'r blaen. Mae yna lot o wasanaethau bydd yn gwbl wahanol ar Clic dros y misoedd nesaf a fydd yn gwella safon y profiad i'r gwylwyr.

(Translation) No, people will see a difference this month. For the first time, over Christmas, 10 box sets will be available through Clic only, but new services will be launched through Clic almost every month. For example, if you use iPlayer at the moment and you start watching something halfway through, you press a button and you can go back to the beginning. There will be a soft launch of the log-in this month and at the beginning of next month. That will allow us to do a hard launch in a few months' time, so you will have to log in. That means that when you have logged in once, if you are watching a programme on Clic on your phone, your home computer or on a main screen, wherever you pick up that programme, it will start from where you were watching it. Over the next few months a lot of services will be completely different on Clic, which will improve the user experience.

Q108 **Ben Lake:** I ddychwelyd at y sgript, rydw i'n cofio yn y sesiwn ddiwethaf bod ambell i bryder wedi cael ei grybwyll am y ffordd y byddai'r bwrdd unedol yn gallu bod yn annibynnol o S4C. Oes gennych chi unrhyw sylwadau o ran sut rydych chi'n mynd ati i sicrhau annibyniaeth y bwrdd ac, yn benodol, i ddiogelu bod y bwrdd yn gallu eich dal chi'n atebol yn ôl yr angen?

(Translation) To return to my script, in the last session a few concerns were expressed about the way in which the unitary board could be independent of S4C. Do you have any comments about how you go about ensuring the board's independence, specifically to ensure they can hold you to account as needed?



HOUSE OF COMMONS

Huw Jones: Yr egwyddor sylfaenol, wrth gwrs, yw mai un bwrdd sydd a bod y bwrdd yna yn gyfuniad o aelodau anweithredol ac aelodau gweithredol. Mae pob aelod o'r Awdurdod presennol wedi cael gwybod y byddan nhw'n parhau—yn enwedig y rhai newydd—fel aelodau o'r bwrdd unedol. Mae yna symudiad—migration, mewn ffordd—o'r sefyllfa bresennol, drwy'r drefn gysgodol, i'r drefn derfynol. Ar hyn o bryd, mae gennym chwech aelod anweithredol, gan gynnwys y cadeirydd. Mi fydd yna dri aelod gweithredol yn dod—Owen yn un. Rydym ni wedi ei chael ar ddeall yn ddiweddar iawn ei bod hi'n fwriad gan yr Adran i benodi dau aelod anweithredol newydd ychwanegol. Mi fydd hynny'n rhoi trefn o naw aelod anweithredol a thri aelod gweithredol nes y bydd deddfwriaeth yn dod. Bydd y deddfwriaeth wedyn yn gorfod edrych ar y cwestiwn, "Beth yw'r nifer delfrydol?", ond felly mae hi'n gweithredu.

Un peth diddorol ac anodd i ni yw y byddwn yn parhau i fod yn gorff fel yr ydym ni nes bod deddfwriaeth yn dod. Rydym wedi cael cyngor gan gyfreithwyr DCMS bod angen gofal yn hyn o beth na allwn ddim peidio â bod yn gorff statudol fel yr ydym ni. Mae'r aelodau ffurfiol wedi cael eu penodi i fod ar y corff hwnnw. Rydyn ni wedi creu rheolau sefydlog sydd yn ystyried sefyllfa lle mae pleidlais yn digwydd a bod gwahaniaeth barn rhwng aelodau anweithredol ac aelodau gweithredol. Rydym ni wedi trio edrych yn synhwyrol a rhoi rheolau lawr ar gyfer beth ddylai digwydd mewn sefyllfa felly, i gymryd sylw o'r wahaniaeth barn. Ond hefyd, i gydnabod y ffaith mai'r aelodau ffurfiol, sydd wedi cael eu penodi gan yr Ysgrifennydd Gwladol, yw'r aelodau sydd, ar ddiwedd y dydd, â'r hawl statudol i wneud penderfyniad, nes bod deddfwriaeth wedi digwydd.

(Translation) The basic principle is that you have one board and that it is a combination of non-executives and executives. Every member of the current Authority has been informed that they will continue as members of the unitary board, especially the new ones. There is movement—a migration, in a way—from the current situation, through the shadow arrangement, to the final arrangement. At the moment, we have six non-executive members, including the chair. Three executive members will join them—Owen is one. We heard recently that the Department will appoint two additional non-executive members. That will give a system of nine non-executive and three executive members until we get the legislation. The legislation will need to look at the question of ideal numbers, but that is how things stand.

One challenging issue is that we will still be the same organisation until we get the legislation. We have had advice from DCMS lawyers that we need to be careful—we cannot stop being the statutory body that we are. The formal members have been appointed to that body. We have created standing orders that consider a situation in which a vote is taken and there is a difference of opinion between executive and non-executive members. We have tried to look sensibly at that and provide rules for what should happen in that case, to take note of the difference of opinion. However, we also recognise that, in the end, the formal members, who have been appointed by the Secretary of State, have the statutory right to make a decision, until legislation is introduced.



HOUSE OF COMMONS

Q109 Chair: Ydych chi'n hollol hyderus y gallwch gael y lefel addas o graffu os yw pawb ar un bwrdd? Dwi'n poeni ychydig am y posibilrwydd bod bwrdd unedol yn golygu y bydd pawb yn dod at ei gilydd, yn hytrach na gofyn cwestiynau anodd i reolaeth S4C.

(Translation) Are you completely confident of getting a suitable level of scrutiny if everyone is on one board? What concerns me a little bit is the possibility that a unitary board would mean that everyone comes together, instead of asking difficult questions of S4C management.

Huw Jones: Dydw i ddim yn meddwl bod hwnna yn gwestiwn gwahanol i'r rhan fwyaf o fyrddau cyrff—a chwmnïau, hyd yn oed. Rhaid i'r aelodau anweithredol ddeall eu cyfrifoldeb i graffu gweithredoedd y swyddogion gweithredol. Mae yna wahaniaeth swyddogaeth. Rydych chi eisiau i'r bwrdd fedru trafod yn gwbl agored a dod i benderfyniadau cytûn, lle mae hynny'n bosib, ond mae gan yr aelodau anweithredol swyddogaeth gwbl benodol, fel yr ydych chi'n awgrymu, o graffu ar y gwaith sydd yn cael ei wneud. Dwi'n meddwl bod hynny efallai yn mynd i fod yn gliriach yn y drefn newydd, fod pobl yn mynd i sylweddoli beth yw eu swyddogaethau nhw fel unigolion, a'i bod yn glir bod y craffu yma yn rhan bwysig o'r gwaith.

(Translation) I do not think that that question is different for us than for most bodies—and even companies. The non-executives need to understand their responsibility of scrutinising the work of the executives. There is a difference of function. You need the board to be able to discuss openly and come to decisions, agreeing where possible. The non-executives have a specific role, as you suggest, of scrutinising the work being done. I think that will perhaps be clearer in the new system. People will understand their functions as individuals and it will be clear that this scrutiny is an important part of the work.

Q110 Susan Elan Jones: Ddarau adolygiad Euryr Ogwen Williams sôn am yr angen i newid diwylliant S4C. Pa fath o newidiadau ydych chi wedi gwneud i hwyluso'r fath newid—os ydych chi wedi gwneud o gwbl?

(Translation) Euryr Ogwen Williams's review talked about the need for a change of culture in S4C. What kind of changes have you made to facilitate that change, if any?

Owen Evans: Wrth drafod newid diwylliant, pan ddes i i S4C fe welais, yn sgil y ffaith bod arolwg ar fin cychwyn, bod rhyw fath o ddryswch am y ffaith bod cylch gwaith S4C heb ddal lan efo beth oedd angen ei wneud. Roedd yn anodd i ni fuddsoddi mewn materion digidol neu ddarlledu mewn ffyrdd gwahanol, gan nad oedd caniatâd go iawn yn statudol i ni wneud hynny. I fod yn deg, beth sydd wedi digwydd wrth i Euryr gyhoeddi ei bapur a'r ymateb gaethon ni gan DCMS yw ein bod wedi cael y sicrwydd i fynd ati i weithredu.

Felly dwi wedi dweud "Reit, rydym ni'n mynd i wneud hyn". Dwi wedi tynnu mewn llawer mwy o gapasiti o gwmpas rheoli prosiectau, i wneud yn siwr bod y math o bethau mae S4C wedi bod yn trafod ers tua chwe mlynedd o gwmpas beth licien ni wneud yn digwydd. Dyna pam dwi'n



HOUSE OF COMMONS

eithaf balch ein bod, yn y chwech mis diwethaf, wedi cyflawni eithaf lot. Mae lot mwy o waith i'w wneud. Mae'r hyn yr ydym ni'n wneud, wrth symud S4C o fod yn ddarlledwr eithaf traddodiadol i fod yn ddarlledwr sydd yn ymateb yn yr un ffordd ag y mae'r BBC, Channel 4 neu pw bynnag, wedi digwydd ar garlam yn y flwyddyn ddiwethaf.

(Translation) In discussing culture change, when I came into S4C I saw, given that a review was about to start, some confusion about S4C's remit not having caught up with what needed to be done. It was difficult for us to invest in digital or to broadcast in other ways, because there wasn't any statutory permission for us to do that. To be fair, Eyrn publishing his paper and then the response from DCMS has given us the assurance to go ahead and implement.

So I have said, "Right, we are going to do this". I have brought in a lot more capacity around project management, to ensure that the things S4C has been discussing roughly over the past six years around what we would like to do are now actually happening. That is why I am very proud that we have achieved quite a lot over the past six months. There is still a lot more work to be done, but what we are doing, in moving S4C from being quite a traditional broadcaster to one that can respond in the same way as the BBC, Channel 4 or whoever, has happened at a gallop over the past year.

Q111 Susan Elan Jones: Rydych chi wedi hanner ateb fy nghwestiwn nesaf. Ydych chi'n meddwl bod pethau eraill sydd angen eu newid?

(Translation) You have half-answered my next question. Do you think that other things need to change?

Owen Evans: Os bydd popeth sydd wedi cael ei drafod yn barod yn digwydd, bydd digon o le i S4C dyfu i fewn i'r byd digidol. Dyna'r peth pwysig i ni: y dyfodol. Mae llond het o bethau strwythurol sydd angen digwydd, ond cael y brif-sianel i addasu i'r byd digidol yw'r pwysicaf. Wrth gwrs, mae'n rhaid i ni gadw llygad ar bethau i wneud yn siwr bod beth sy'n dod allan o'r broses statudol yn gyfiawn i beth sydd angen ei wneud, ond dwi'n eithaf ffyddiog bydd hynny'n digwydd.

(Translation) If everything that has already been discussed happens, there will be plenty of room for S4C to grow into the digital world. That is the important thing for us: the future. A huge amount of structural things need to happen, but having the main channel adapt to digital is the most important. Of course, we need to keep an eye on things to ensure that what comes out of the statutory process matches what needs to be done, but I am quite confident that that will be the case.

Q112 Susan Elan Jones: Mae gen i ddiddordeb mewn pobl sy'n gwyllo S4C y tu allan i Gymru—yn Llundain ac yn lle bynnag. Mae hynny'n bwysig iawn i'r iaith Gymraeg a'i dyfodol. Oes yna rhywbeth ynglŷn â diwylliant y sianel fydd yn helpu'r bobl sydd y tu allan i Gymru i wyllo'r sianel?

(Translation) I have an interest in people who watch S4C outside Wales—in London or wherever. I feel that is very important for the Welsh



HOUSE OF COMMONS

language and its future. Is there anything about the culture of the channel that will help people from outside Wales to view the channel?

Owen Evans: Mae yna ddau beth fan hyn: yr ochr statudol, a beth mae S4C yn gallu cynnig. Mae'n wir bod yn rhaid i S4C wneud yn siwr ein bod ni'n cynnig cynnwys cyfoes. Wrth i bobl fynd yn fwy estron a byw drwy'r Deyrnas Unedig i gyd, mae'n rhaid i ni wneud yn siwr eu bod nhw'n deall bod S4C am y Cymry, ble bynnag maen nhw. Mae hwn yn un peth sy'n bwysig.

Mae rhywbeth arall sydd efallai'n bwysicach. Mae lot o sôn wedi bod am amlygrwydd. Mae Ofcom wedi edrych ar hwn yn ddiweddar. Mae'n anodd i ddarllledwr bach mewn byd swllyd gael ein llais trwyddo. Dyna pam mae marchnata digidol mor bwysig i ni, ond rwy'n amau na fydd hynny'n ddigon. Dyna ble mae rôl i'r Llywodraeth i fesur pa fath o amlygrwydd geith darllledwyr fel S4C—ond hefyd y BBC ac eraill.

(Translation) There are two things here: the statutory side and what S4C can offer. It is true to say that S4C needs to ensure that we provide content that is contemporary. As people move away and live throughout the UK, we need to ensure that people understand that S4C is for the Welsh, wherever they are. That is very important.

Perhaps more importantly, there has been a lot of talk about prominence, which Ofcom has been looking at. It is very difficult for a small broadcaster in a very loud world to get our voice out there, which is why digital marketing is so important for us, but I suspect that won't be enough. I think there is a role for Government to measure the prominence of broadcasters such as S4C, BBC and others.

Q113 Liz Saville Roberts: Hoffem ddod yn ôl at ehangu'r cylch gwaith i'r maes digidol. Rwy'n cofio'r sôn am oblygiadau teledu digidol—smart televisions. Fedrwch chi ddweud mwy am yr herfeydd hynny i sianel fach?

(Translation) I'd like to come back to the question about expanding the remit into digital. I remember that there was some talk about the implications of smart televisions. Can you tell us a little more about the challenges of that for a small channel?

Owen Evans: Mae popeth ry'm ni'n wneud yn balans—beth gallwn ni wneud efo'r capasiti a'r adnoddau sydd gennym. Mewn byd delfrydol, byddai ap S4C ar bob smart TV. Buasai cyflawni hynny ar ben ei hun yn costio tua £1 miliwn y flwyddyn. Dyw'r arian ddim gennym i wneud y fath beth yn y tymor byr. Mae dargyfeirio arian yn anodd. Ry'm ni wedi dargyfeirio £3 miliwn yn barod. Rwy'n amau bydd mwy o arian yn symud o gwmpas yn y blynyddoedd i ddod. Mae'r gost o wneud rhywbeth tebyg yn fawr. Felly rhaid i ni fod yn glyfar. Ry'm ni wedi bod yn edrych ar y platfformau sy'n rhoi'r mwyaf o weledigaeth S4C i'n gwylwyr, felly ry'm ni'n edrych ar bethau fel Freeview Play. Ry'm ni hefyd yn edrych ar setiau teledu lle nad yw Freeview Play ar gael, megis rhai Samsung. Mae angen ap ar gyfer setiau Samsung. Mae gennym strategaeth. Ry'm ni'n cadw golwg ar sut i gyflawni pethau ond y balans yw: faint o adnoddau sydd gennym a beth gallwn ni fforddio?



HOUSE OF COMMONS

(Translation) Everything we do is a balance between what we can do and the capacity and resources that we have. In an ideal world, we would like S4C's app on every smart TV. Achieving that would cost us £1 million a year, and we don't have the resources to do that in the short term. Diverting funding is difficult, and we have already diverted £3 million. I suspect that more money will be moved around over the next few years. The cost of doing that is large, so we need to be smart. We have been looking at which platforms provide the best service for our viewers. We are looking at things such as Freeview Play, and we are looking at where that is not provided, such as for Samsung TVs—you need an app for that. We have a strategy, and we are regularly keeping an eye on how we do this, but there is always a balance between how much resource we have and what we can afford.

Q114 Liz Saville Roberts: Pa rôl sydd gan y Llywodraeth i ddiogelu presenoldeb PSBs—darlledwyr cyhoeddus? Yn y byd digidol, mae yna beryg i'r sianelau hyn ddiflannu.

(Translation) What role do Government have in protecting the presence of PSBs? In the digital world, there is a risk that these channels will disappear.

Huw Jones: Mewn unrhyw faes lle mae gan y Llywodraeth unrhyw fath o reolaeth dros amodau cwmnïau, mae'n bosib cynnig rheoleiddiadau. Os oes gan wneuthurwyr setiau teledu unrhyw fantais drwy access i rwydweithiau Prydeinig, neu grantiau, neu unrhyw fudd o fod yn rhan o drefn Brydeinig, mae gan y Llywodraeth rhyw fath o leverage o ran, er enghraifft, mynnu cael amlygrwydd i ddarlledwyr cyhoeddus. Dyna'r math o beth mae'r Llywodraeth yn gallu gwneud os yw o'n dymuno.

(Translation) Regulations can be put in place in any area where Government have any kind of control over the conditions in which companies are working. If television manufacturers have any advantage through access to UK networks, or grants, or any benefit from being part of a British system, the Government have leverage to ensure prominence for public broadcasters. That is the type of thing that the Government can do, should it desire.

Owen Evans: Hefyd, mae yna ateb heddiw ac ateb mewn pum mlynedd. Ateb heddiw am yr EPG yw, os nad yw S4C ar y tair tudalen gyntaf, y siawns yw bydd llai o wylwyr yn darganfod beth sydd ymlaen achos mae pobl yn tueddu sgipio trwyddo, gweld rhywbeth a stopio. Yn y dyfodol, wrth i apiau ddod yn fwy blaengar yn y ffordd mae pobl yn gwylio rhaglenni, bydd yn anodd iawn i ddarlledwyr bach fel S4C sicrhau ein bod ni'n gallu cyflenwi'r apiau, a bod nhw ar y platfformau i gyd. Gellir dangos market failure o gwmpas rhywbeth fel hyn. Fel arfer, mewn achos o market failure, mae'n addas i'r Llywodraeth gamu mewn.

(Translation) Also, there is an answer today and in another in five years. The answer today on EPG is, if S4C is not on the first three pages, the chances are that we will have fewer viewers who will find out what's on, because people tend to just to scroll through, see something and stop. The



HOUSE OF COMMONS

answer for the future is, as apps become more and more prominent, it will be hard for a small broadcaster like S4C to ensure that we are on all the platforms. Market failure can be shown in such a case. When there is market failure, it is usually appropriate for Government to step in.

Q115 Guto Bebb: Wna i gychwyn drwy gadw'r ddesgil yn wastad efo fy merch, sydd eisiau gwybod pam dydy "Gwaith Cartref" ddim yn un o'r cyfresi sydd yn cael eu cynnig fel bocs set. Mae hi wedi cael ei phechu'n ofnadwy, felly mae hi eisiau gwybod pryd ydach chi'n debygol o roi cyfresi cyntaf "Gwaith Cartref" ar Clic fel bocs set. Dyna'r cwestiwn pwysig—mi gewch chi amser i feddwl am hwnnw. Tra ry'ch chi'n gwneud hynny, mae gennym gwestiwn arall.

Rydych chi wedi sôn yn barod am yr angen am newid deddfwriaethol er mwyn sicrhau bod rhai o'r argymhellion yn adroddiad Euryng Ogwen yn cael eu gweithredu, ond ry'm ni fel Pwyllgor wedi cael ar ddeall nad oes amserlen benodol ar gyfer hynny. Ydych chi wedi cael unrhyw drafodaethau pellach hefo DCMS ynghylch y posibilrwydd o amserlen ar gyfer deddfu? Yn yr un modd, ydy'r methiant i ddeddfu yn unol â'r adroddiad yn creu problemau i chi fel sianel?

(Translation) I will start by keeping my daughter happy by asking why "Gwaith Cartref" is not one of the series that is available as a box set. She is very upset and wants to know when you are likely to make the first series of "Gwaith Cartref" available as a box set on Clic. That's the important question—I'll give you some time to think about it, and while you do so I'll ask another question.

You have already touched on the need for legislative changes to ensure that some of Euryng Ogwen's recommendations are implemented, but we have also heard as a Committee that there is no timetable for that. Have you had any further discussions with DCMS on a timeline for legislating? Similarly, is the failure to legislate causing problems for you as a channel?

Huw Jones: Rydym ni'n trafod gyda'r Adran yn rheolaidd. Dydyn ni ddim wedi cael arweiniad ynglŷn â phryd maen nhw'n disgwyl dod o hyd i amser deddfwriaethol, am resymau amlwg, mae'n siwr.

(Translation) We have regular discussions with the Department. We have been given no idea about when parliamentary time can be provided—for obvious reasons, I suppose.

Guto Bebb: Tybed be ydy rheiny?

(Translation) I wonder what they are?

Huw Jones: Ydy e'n creu anhawster? Ddim ar y funud, oherwydd ein bod ni'n fodlon ac yn hapus i weithredu fel bwrdd unedol fel petai'r ddeddfwriaeth yn bodoli. Mae hyn yn rhoi cyfle i ni ffeindio allan beth yw deinamics y drefn newydd, os liciwch chi. Does yna ddim drwg yn hynny o beth ac efallai bydd y profiad yna yn arwain at ddeddfwriaeth gwell maes o law. Dydi e ddim yn broblem fel y cyfryw, ar wahan i'r ffaith bod elfen o risg corfforiaethol yn y ffaith, nes bod y ddeddfwriaeth wedi ei newid i



HOUSE OF COMMONS

ddweud "Mae e'n rhan o'ch cylch gwaith chi i fod yn ddigidol" ac ati, rydym ni'n cymryd ychydig bach o risg yn y ffaith nad oes gennym ni ddeddfwriaeth fel backstop. Mae gennym arweiniad clir gan y Llywodraeth yn eu hymateb nhw i'r adolygiad sy'n dweud eu bod yn croesawu'r cyfeiriad yma ac yn argymhell i ni fynd yn gryf i'r cyfeiriad yna. Dy'n ni'n teimlo'n weddol hyderus nad yw'r drefn bresennol yn broblem fawr ynddi ei hun.

(Translation) Does it cause difficulties? At the moment, I don't think it does. We are happy to operate as a unitary board as if the legislation were in place. That gives us an opportunity to find out the dynamics of the new system. There is no harm in that, and perhaps the experience will lead to better legislation in due course. It is not a problem as such, except for the fact that there is an element of corporate risk, because until the legislation changes to say it is part of our remit to be digital, we are taking a little bit of a risk by not having legislation as a backstop; but we have clear guidance from the Government in their response to the review. They say they welcome the recommendations and strongly recommend that we go in that direction. So we feel reasonably confident that the current system is not a big problem.

Q116 **Guto Bebb:** Ydy'r cyngor cyfreithiol rydych chi wedi cael yn datgan nad oes posibilrwydd o gwbl o gael eich brathu wrth wneud hynny heb ddeddfwriaeth?

(Translation) Does the legal advice you have had state that there is no risk of getting bitten by doing this without legislation?

Huw Jones: Mae'r cyngor cyfreithiol gan yr Adran yn nodi "Byddwch yn ofalus". Wrth gwrs, mae hwnna'n taflu'r broblem yn ôl atom ni a ry'm ni wedyn yn pwysu ar ewyllys da ac ar arwyddion gwleidyddol clir ynglŷn â chyfeiriad.

(Translation) Legal advice from the Department notes that we should be careful. Of course, that throws the problem back to us and we are then dependent on good will and clear political signs for direction.

Q117 **Guto Bebb:** Mae'n deg dweud, felly, eich bod chi ddim wedi methu â gweithredu yn unol â'r adroddiad, ond y buasech, mewn byd delfrydol, yn licio gweld y deddfu yn digwydd yn gynt nag yn hwyrach.

(Translation) It is therefore fair to say that you haven't failed to act according to the report's recommendations, but in an ideal world, you would like to see the legislation happen sooner rather than later.

Huw Jones: Wrth gwrs.

(Translation) Yes, of course.

Q118 **Guto Bebb:** O ran trafodaethau efo DCMS, beth ydi'r sefyllfa bresennol o ran trefniadau archwilio allanol? Roedden i'n clywed bod hwnnw wedi ei drafod. Lle ydyn ni wedi cyrraedd efo hwnna?

(Translation) Regarding discussions with DCMS, What is the current situation with external audit? I know that that has been discussed. What



HOUSE OF COMMONS

point have we reached with that?

Huw Jones: Argymhelliad yr adolygiad yw y dylai'r NAO fod yn archwilio S4C. Does gennym ni ddim problem efo hynny. Mae ein trefn bresennol gyda'n archwilwyr presennol, Grant Thornton, yn dod i ben ar ddiwedd y flwyddyn ariannol hon. Ry'm ni'n disgwyl clywed gan yr Adran a fydd yr NAO yn cymryd drosodd ai peidio yn y flwyddyn ariannol nesaf. Rydyn ni ar ddeall bod yna rywffaint o anhawster o ran amseru, ond mae hynny yn fater i'r Adran adrodd arno. Ry'm ni'n dymuno clywed yn fuan iawn ai dyna bydd yn digwydd, achos os na, bydd yn rhaid i ni ddod i drefniant naill ai i'r archwilwyr presennol barhau am flwyddyn arall, neu i hysbysebu am gytundeb hirach na hynny a gweld pwy sydd am gynnig amdano.

(Translation) The review recommends that the NAO should audit S4C. We do not have a problem with that. Our current arrangement with our auditors Grant Thornton ends at the end of this financial year, so we expect to hear from the Department whether the NAO will take over in the next financial year. We understand that there is some difficulty about timing, but that is a matter for the Department to report on. We would of course like to hear very soon whether that is going to happen, because if it does not happen we will need to make arrangements either for the current auditors to continue for another year, or to advertise for a longer-term agreement and see who wants to bid for that.

Q119 **Guto Bebb:** Yn sgil y ffaith bod y cyfrifon wedi cael eu rhoi i'r Swyddfa Archwilio, ydych chi wedi derbyn unrhyw sylwadau ganddyn nhw ar y cyfrifon hynny?

(Translation) Have you had any comments on the accounts that have been provided to the National Audit Office?

Huw Jones: Dim i mi fod yn ymwybodol.

(Translation) No, not as far as I know.

Owen Evans: Na fi chwaith, ond mi allwn ni edrych ar hynny.

(Translation) Me neither, but I can check.

Q120 **Guto Bebb:** Ond rydych chi wedi eu rhoi—maen nhw wedi eu cael nhw?

(Translation) But the NAO has received them?

Huw Jones: Do.

(Translation) Yes.

Owen Evans: Do, maen nhw'n eu cael nhw bob blwyddyn.

(Translation) Yes, the NAO gets them every year.

Guto Bebb: Felly hyd yma, does yna ddim adborth wedi dod o gwbl.

(Translation) And so far, you've had no feedback at all.

Q121 **Chair:** Beth yw'r amserlen ar gyfer cyflwyno'r ddeddfwriaeth newydd o'r Adran? Pe buasai'r Llywodraeth ddim yn cyflwyno'r ddeddf newydd yn



HOUSE OF COMMONS

fuan, pa fath o effaith bydd hyn yn cael ar S4C?

(Translation) What is the Department's timetable for introducing the legislation? If the Government does not bring forward the new legislation soon, what kind of impact will that have on S4C?

Huw Jones: Fe fydden i'n rhoi'r un ateb â dwi wedi rhoi i Mr Bebb. Dydyn ni ddim yn gwybod pryd ddaw'r ddeddfwriaeth. Mae hyn yn nwylo'r Llywodraeth. Yn y cyfamser, ry'm ni'n gweithredu mewn ewyllys da fel corff cysgodol. Dwi ddim yn meddwl bod gen i lawer i ychwanegu i'r ateb blaenorol.

(Translation) I will give you the same response as I gave Mr Bebb: we do not know when the legislation will come. It is in the Government's hands. In the meantime, we are operating on the basis of good will, as a shadow body. I don't think I have much to add to the previous answer.

Q122 **Susan Elan Jones:** Does gennym ni ddim syniad o gwbl pryd mae'r ddeddfwriaeth yn mynd i ddod?

Q123 *(Translation) We have no idea when the legislation will come?*

Huw Jones: Ry'm ni'n gwybod bod yr Adran yn awyddus i ddod â'r ddeddfwriaeth yn ei blaen. Mae gwaith drafftio yn digwydd ar hyn o bryd. Ond dwi ddim yn meddwl bod yr Adran mewn sefyllfa i roi'r wybodaeth i ni ar hyn o bryd.

(Translation) We know that the Department is keen to bring legislation forward. Work is taking place on drafting it, but I don't think the Department is in a position to give us that information at the moment.

Q124 **Liz Saville Roberts:** A fedrwch chi gadarnhau, felly, bod gennych chi sicrwydd ariannol o'r hyn sy'n dod o'r Adran tan 2021?

(Translation) Can you confirm that you have financial certainty about what comes from the Department until 2021?

Huw Jones: Gallaf.

(Translation) Yes.

Q125 **Liz Saville Roberts:** Ydych chi wedi clywed beth sy'n digwydd ar ôl hynny?

(Translation) Have you heard what happens after that?

Huw Jones: Naddo, oherwydd mae'r hyn sydd yn digwydd o ran yr arian adrannol yn ddarostyngedig i'r adolygiad gwariant. Ry'm ni wedi cael arwyddion eithaf cryf, byddwn i'n dweud, gan y Gweinidog o flaen y Pwyllgor yma ynglyn â chefnogaeth, ond nes bod hynny yn cael ei droi'n ddatganiad ariannol cadarn, gallwn ni ddim cymryd unrhywbeth yn ganiataol.

(Translation) No. What happens in terms of the Department's funding is subject to the spending review. We have had strong indications from the Minister in front of this Committee about support, but until that becomes a robust statement, there is nothing that we can take for granted.



Q126 Liz Saville Roberts: Os gaf i holi un cwestiwn arall ynglyn â'r ariannu, oes gan y drafodaeth am sut i barhau'r ariannu drwy'r BBC ar gyfer trwyddedau teledu am ddim i bobl dros 75 oed unrhyw oblygiadau i S4C?

(Translation) If I could ask one more question, does the discussion about the BBC continuing to fund TV licences for people over 75 have any implications for S4C?

Huw Jones: Ry'm ni'n ymwybodol iawn o'r drafodaeth yna ac o ymgynghoriad y BBC, sydd yn digwydd ar hyn y bryd. Mi fyddwn ni'n ymateb i'r ymgynghoriad yna. Yn naturiol, wrth i'r adolygiad ac ymateb y Llywodraeth gadarnhau y bydd cyllid S4C ar gyfer 2022-23 ymlaen yn dod, maes o law, yn gyfan gwbl o ffi'r drwydded, ein disgwyliadau ni ydy y byddwn ni yn cael nid yn unig yr arian ry'm ni'n ei gael ar hyn o bryd ond yr arian sy'n dod gan DCMS, ac ry'm ni hefyd yn chwilio am chwyddiant, oherwydd os na gewn ni chwyddiant mi fyddwn ni yn colli allan unwaith eto mewn termau real. Ein disgwyliadau ni ydy bod y ffigwr sydd yn dod o ffi'r drwydded yn dipyn uwch nag ar hyn o bryd.

Yn ei ymgynghoriad, mae'r BBC yn ei gwneud hi'n glir bod y posibilrwydd o orfod gwynebu talu yr holl drwyddedau dros 75 allan o'r incwm presennol yn gyfystyr â chost o £745 miliwn, a bod hyn yn anochel yn mynd i gael effaith ar bopeth sydd yn cael ei ariannu ar hyn o bryd allan o'r drwydded. Dyna mae'r BBC yn ei ddweud.

Mae gennym ni gydymdeimlad hefo'r pwysau mae'r BBC yn wynebu a'r argyfwng yma o orfod trafod materion sydd, yn y bôn, yn faterion cymdeithasol yn hytrach na materion darlledu. Mi fyddwn ni wrth gwrs yn pwyntio allan nad oes yna gysylltiad uniongyrchol. Cyfrifoldeb yr Ysgrifennydd Gwladol o hyd ydy sicrhau arian digonol i S4C, ond y realiti yw y bydd y drafodaeth ynglyn â maint y drwydded yn y dyfodol, yr hyn sy'n cael ei dalu allan o'r drwydded a'r hyn mae S4C yn ei gael yn anochel yn digwydd yr un pryd ac mai un drafodaeth sydd yn debyg o fod. Ry'm ni'n awyddus iawn i bobl ddeall y posibilrwydd y gallai hyn greu tensiwn maes o law rhwng yr hyn mae'r BBC yn teimlo maen nhw'n gorfod ei wneud i warchod eu gwasanaethau, a'r hyn mae S4C yn gorfod ei wneud i warchod ei wasanaeth ei hun—ar wahan hefyd, wrth gwrs, i'r cwestiwn o gyllido y 10 awr mae'r BBC yn eu rhoi i S4C fel cyfraniad cynnwys tuag at y gwasanaeth.

(Translation) We are very aware of that discussion and of the BBC consultation taking place at the moment, which we will respond to. Naturally, as the review and the Government's response confirm that S4C's funding from 2023 onwards will come completely from the licence fee, our expectation is that we will receive not only the funding that we receive at the moment, but the funding we get from DCMS. We are also looking for inflation, because if we do not get inflation, we will lose out once again in real terms. Our expectation is that the funding from the licence fee will be considerably higher than it is at the moment.

The BBC consultation makes it clear that the possibility of having to pay for all the licences for over-75s from the current income means a cost



HOUSE OF COMMONS

equivalent to £745 million, which would inevitably have an impact on everything being funded out of the licence fee at the moment. That is what the BBC is saying.

We have sympathy with the pressures faced by the BBC and the crisis of having to discuss matters that are essentially social rather than broadcasting issues. We would, of course, point out that there is no direct link. It is still the Secretary of State's responsibility to ensure that S4C has sufficient funding, but the reality is that the discussions about the size of the licence in future, about what is paid out of the licence fee and about what S4C receives will take place at the same time. They are likely to be one discussion, so we are very keen for people to understand the pressure and the possibility that it could create tension in due course between what the BBC feels it needs to do to protect its services and what S4C needs to do to protect its own services—let alone the question of funding the 10 hours that S4C receives at the moment from the BBC as a contribution to its service.

Q127 Liz Saville Roberts: Felly rydych chi'n pryderu. Oes modd meintoli posibilïad fyddai disgwyl i'r BBC ddenu, neu ydy hi'n rhy fuan i ddweud?

(Translation) So you are concerned. Can we quantify in any way how much the BBC could attract, or is it too early to say?

Huw Jones: Fyddwn ni ddim yn dymuno mynd i'r cyfeiriad yna, achos mae'r rhain ar hyn o bryd yn dal i fod ar lefelau egwyddorol.

(Translation) We wouldn't wish to go in that direction, because at the moment they are still a discussion in principle.

Q128 Jack Lopresti: The main reason that S4C Digital Media seems to have made a profit in recent years appears to be revaluations on investments, otherwise known as "fair value movements". First, could you explain to me what is meant by fair value movements? Secondly, are you happy with that overall situation?

Owen Evans: We will continue to balance what the fair value is on a market basis. The various investments that we have will be appraised on that basis annually. Do we agree that this is a true reflection of where we want to be, as opposed to an accounting practice? I think the answer to that would be no.

Q129 Jack Lopresti: Who decides? Who evaluates?

Owen Evans: We have independent auditors who scrutinise any valuations that we place so that it is a transparent process. On the one hand, the review was actually very bullish about the money that we could make, commercially. But as the accounting officer, I have to set a trajectory so that we can create a dividend for the main channel that is sustainable and with a risk that we can bear. That is one of the big changes that we have brought in over the past year, particularly in the light of what the review says, but also from our own review into the strategic direction of our commercial fund. It is no secret that we made quite a substantial write-off at the end of last year. It is no secret that we



HOUSE OF COMMONS

have gone back to basics and devised a new strategy, which was approved by the Authority some months ago, and that we have changed the direction to one where we understand exactly what the risk profile of our investments is. That is quite a big change from last year, so to the fundamentals of your question, I do not think we were content with where it was going then, and that we were really just adding value by an accounting exercise.

Q130 Jack Lopresti: Exactly, so what would happen if those failed to materialise in the future? How would it look overall?

Owen Evans: I haven't done that calculation, to be honest. Obviously, we would probably be in deficit.

Q131 Chair: Specifically on that, the fair value movement for 2015 was £1.8 million, which made sure that S4C DM made a profit, and then it was down—a £380,000 loss—and then an almost £2 million profit. What is it that is actually going up or down like that? Is it shares in companies or assets?

Huw Jones: Those two elements are the investments held by an investment company on our behalf, investing in the markets, so that is the market value of investments.

Q132 Chair: I'm not an expert in these matters, but normally when one invests in shares in the market, one expects them to go up gently, perhaps by more than inflation if one is lucky. These things seem to be oscillating quite wildly. Is that normal?

Huw Jones: I think they reflect market conditions in those years.

Q133 Jack Lopresti: Finally, when will your 2017-18 accounts be filed?

Owen Evans: 2017-18?

Jack Lopresti: Yes, for S4C Digital Media.

Owen Evans: I will need to check what date that is.

Q134 Chair: Can I ask a couple of questions, then? On the investments that S4C Digital Media is making, one of the ones that I was curious about was Blurrt. The accounts for Blurrt show that it has been making a substantial loss every single year, and I just wondered how much S4C had invested in Blurrt and what the strategy was there.

Owen Evans: I can get you a note on this to give you the specifics, but from my recollection, we have written down the value of investment in Blurrt to nought.

Q135 Chair: To nought? Would it be fair for me to ask what you invested into Blurrt in the first place? You were holding about 22% of the company at one point, I think.

Owen Evans: If I were to divulge that information, I would need to contact the company to allow that to happen, but I would be perfectly content to ask permission from the company as to whether we could



HOUSE OF COMMONS

divulge that information. It is commercially sensitive between ourselves and Blurrt.

Q136 Chair: The accounts for Blurrt clearly show that in each year of its existence, it has made a loss. Starting from £100,000, it looks now to be about £1.7 million—first £100,000, then £200,000, then £202,000, then £1 million, then £1.7 million. What was the thinking behind investing in this company?

Owen Evans: This was before my time, but I am perfectly happy to field the question. The original investment in Blurrt was around the fact that they were developing an algorithm that effectively measured to what extent there was a favourable response on social media to any programme or activity of an organisation. At the time, it was a new algorithm that would be of use to commercial players looking to see if their product was being viewed favourably on social media or not; at the time, that was probably bleeding-edge technology. S4C made a decision to invest in the venture, as did others, including, I think, Finance Wales.

When I came in a year ago and we did the appraisal—based, actually, on an independent report on the future potential of these companies—one of the things that became fairly obvious, as you are picking up on, was that the upside of Blurrt seemed to be fairly minimal as far as investments are concerned. The decision was made not to accede to a further funding request from Blurrt and to close down our investment, or to leave it dormant at any rate. I think Blurrt as a company still trades, although I am not sure what the latest financial position on that is, but I see that there is very little upside for S4C, which is why we recommended that we revalue the investment and effectively write it off.

Q137 Chair: I think you had somebody on the board. They appear to have resigned now.

Owen Evans: Yes.

Q138 Chair: Having put a lot of money into Blurrt, you then decided that it would be better to write the whole thing off and have nothing further to do with the company.

Owen Evans: Again, that was a straightforward decision. The question was whether I should continue to pay for someone to sit on the board on a freelance basis. The likelihood is that the upside of that would be so minimal that it would be a sunk cost. Based on the information that I had, the decision was made to withdraw that person.

Q139 Chair: Do you actually know what happened to the money that was put into Blurrt? Do you know how it was spent? They choose not to publish a profit and loss account, so it is hard to see their turnover, but they do not seem to have done much in the way of sales. However, the most recent accounts show what appears to be a directors' loan account of £179,000 paid to the directors.

Owen Evans: Our money would have been spent on the general operating expenses of that company.

Q140 **Chair:** So that would have included the directors' salaries?

Owen Evans: I will have to check.

Q141 **Chair:** Is that something that you would be willing to check? I appreciate that this happened before your time. However, when one sees something in the accounts for £180,000 going on directors' loan accounts, which looks like loans to the directors, and when one sees that the company has been losing money year after year at quite a hefty rate, one might be tempted to wonder why the directors have been paid those sums of money. One might also wonder whether, if Blurrt is not actually selling or making anything, the money those directors are being paid is simply public funds, including funds from S4C.

Huw Jones: On that specific point, the S4C funds would not be public funds. They are S4C's funds from commercial sources. We do not consider the investment made by S4C to be an investment of public funds.

Q142 **Chair:** None the less, if S4C uses funds from commercial sources to invest in companies that are making a loss, that reduces the amount of money that S4C has for programming and increases S4C's need for public funds.

Huw Jones: That is unquestionably true, but I think there is a distinction to be drawn.

Q143 **Guto Bebb:** Just two points. In terms of the confidentiality of the investment made by S4C in the venture, it is on the record how much Finance Wales puts in, so I think it would be useful if confirmation was forthcoming. Even though I accept the argument that it comes from commercial funding, the transparency argument is also important.

Secondly, I am slightly concerned that you say that the investment has been written down to zero. Blurrt's last balance sheet figure showed net assets of £467,000, I believe. If S4C had 22% of that, I would be slightly concerned that you had written it all off. Some clarity on exactly what is going on would be useful.

Owen Evans: Fine. Just on the assets, they would have been on fair value. The majority of it would have been on the basis of the software they were developing. I suspect the value of that software has changed quite markedly since that date.

Q144 **Chair:** In the notes that you kindly said you would send us, would you also be able to tell us what S4C did to scrutinise the decisions around that investment, and also the investment into a company called OobEdoO? I think that had similar problems.

Owen Evans: It did. When, with the Authority, we decided to have a proper review of our commercial activities, the first thing we did was to get independent advice. We took on external expertise to scrutinise all of our investments. That report effectively gave us the basis for decisions on the future direction of our strategic fund.

Chair: Thank you. I will come back to Chris.



HOUSE OF COMMONS

Q145 Chris Davies: I will stay on this line of questioning regarding Blurrt, which I am quite interested in. Mr Evans has said that he is only recently in place. Mr Jones, why was this not picked up before, and why did the S4C board not decide to pull money out of Blurrt previously instead of waiting until the past 12 months?

Huw Jones: With any new investment, the temptation is to give it time to prove itself. Looking back at the investment strategy from commercial funds over the past five, six or seven years, there was a division of those commercial funds into three categories, of which two were to invest in stock markets through an intermediary and the third was to allow investment in new ventures. The intention was to make additional profits that would feed in as dividends to the public service. That was at the time when S4C's public funds were facing considerable reduction, and the challenge was to try to restore some income. It could be said that that one third proportion of the fund was invested in what have turned out to be risky ventures, but that was done in the context of S4C's having made a risky venture several years previously that had actually generated £33 million of profit, which constituted the commercial fund that was being invested, so S4C's history was of having been able to take a considerable risk and its having paid off.

Looking at how things progressed, too many different investments were made. There were too many investments made in areas that S4C did not have direct knowledge of, but that came to the commercial board apparently well backed up by the information provided by the proposers and by the commercial officers that S4C itself employed. I think, at the end of the day, with some of those companies it would have been wiser if the investment had been made dormant earlier, but nevertheless the reality is that when the company was doing its best, and appeared to be doing its best, in a new area of technology, knowing that new technology can deliver considerable profits, it was not unreasonable to continue to try to back the company, up until such a point as it became apparent that too much was being asked—given also, as Owen has said, that other partners who were involved in those investments were making similar decisions at the same time.

Q146 Chris Davies: I must say that I have never thought of S4C being in the risk business. You seem quite proud of the fact that one risk turned into a big profit for you, but this has not done so well. You answered the Chairman by saying that it was from a different pot, but at the end of the day, when that pot runs out you come back to Government or the BBC and say, "We haven't got enough money, so we want more taxpayers' money." Do you think it is fair to be in the risk business?

Huw Jones: I would suggest that what we do with our commercial funds is to try to add to the money we receive from public funds. That has always been the pattern and, to the extent that we have been able to do that and continue to do that, through the breadth of the range of commercial investments made, that is how it should be. It should be remembered that the thrust of the review is to encourage S4C to take risks in the commercial and digital spheres, to deliver initial benefits. The



HOUSE OF COMMONS

balance between risk and reward is a real one; there is a tension between what the review is suggesting and our own recent experience, and Owen has taken important steps to try to get that balance right for the future.

Q147 Chris Davies: So when you next come to Government, can we be assured that you have the procedures in place to ensure that a risk such as this does not run on for as long as it has, and that there are checks and balances in place to ensure that your money, and taxpayers' money, is safe in your hands?

Huw Jones: May I repeat the point that taxpayers' money has not been at risk here? I think the answer to your question is yes: the processes that Owen has put in place will make it more likely that risks will not be run for quite as long as some of these have been run.

Chris Davies: I must say I am not assured, but I will finish there.

Q148 Susan Elan Jones: Gai ofyn am Loteri Cymru, os gwelwch yn dda? Rwyf eisiau gofyn i chi, Mr Jones, am rôl yr Awdurdod yn sgrwtineiddio buddsoddiad S4C.

(Translation) Can I move on to Loteri Cymru, please? I would like to ask you, Mr Jones, about the role that the Authority played in scrutinising S4C's investment.

Huw Jones: Mae syniad y loteri yn mynd yn ôl i tua 2012, pan gynigiwyd y syniad i'r prif weithredwr. Datblygwyd y syniad dros gyfnod o rai blynedd. Cymerwyd cyngor sylweddol gan arbenigwyr yn y meysydd loteri. Cynhaliwyd ymchwil marchnad i'r gwahanol ddulliau o loteri y gellid eu cynnal. Daethpwyd â'r mater i sylw'r Awdurdod ddwywaith yn ystod y cyfnod yna. Y tro cyntaf, roedd yn gwestiwn a oedd hi'n briodol i S4C ymwneud â loteri. Roedd yr Awdurdod yn awyddus iddo ddigwydd, oherwydd bod yna gred bod rhaglen deledu yn seiliedig ar loteri yn mynd i ddenu gwylwyr newydd ac y byddai'r straeon fyddai'n deillio o'r rhai oedd yn ennill y loteri yn ddiddorol, ac y byddai'r achosion da fyddai'n ennill arian o'r loteri hefyd yn creu straeon da i'r gwasanaeth. Roedd addewid y byddai dividend yn dod i S4C pe bai'r sianel yn gwneud y buddsoddiad sylfaenol yma. Roedd hi'n ymddangos i'r Awdurdod bod y due diligence wedi'i wneud yn drylwyr, ac felly mi gymeradwywyd y buddsoddiad gan yr Awdurdod.

(Translation) The idea of the lottery goes back to about 2012, when the idea was proposed to the chief executive. The idea was developed over a number of years. Substantial advice was taken from experts in lotteries. Market research was undertaken into the various types of lottery that you could hold and the matter was brought to the attention of the Authority twice during that period. The first time, it was a question of whether it was appropriate for S4C to be involved in a lottery. The Authority was keen for it to happen, because there was a belief that a television programme based on the lottery would attract new viewers and that the stories coming out of the lottery winners would be interesting, while the good causes making money from the lottery would also create good stories for the service. There was a promise that a dividend would come to S4C if the



HOUSE OF COMMONS

channel made this initial investment. It appeared to the Authority that the due diligence was thorough, so the investment was approved by the Authority.

Q149 Susan Elan Jones: Gai ofyn hefyd os gynhaliwyd ymholiad mewnol am be ddaru ddigwydd?

(Translation) May I also ask if an internal investigation was held into what took place?

Huw Jones: Do, a mae Owen wedi gwneud hynny ar ein rhan ni.

(Translation) Yes, Owen has undertaken that on our behalf.

Q150 Susan Elan Jones: Ydych chi eisiau ychwanegu rhywbeth?

(Translation) Would you like to add to that?

Owen Evans: Fel mewn unrhyw achos ble mae corff wedi colli ar ein lefel ni, wrth gwrs mae rhyw fath o adolygiad mewnol. Edrychais i'n bersonol mewn i'r peth, gan ystyried ble roedd y penderfyniadau wedi digwydd a beth allen ni ddysgu ar gyfer y dyfodol, i sicrhau bod byth siawns o wneud y fath beth eto. Es i drwy bopeth: y penderfyniadau cyntaf, y tystiolaeth, y business case.

Fel dywedodd Huw, roedd eitha lot o graffu, ond roedd gwendidau o gwmpas faint roeddem ni'n deall am sut i chwarae loteri, ac am y business case. Gorfodwyd ni i sefydlu'r cwmni mewn ffordd oedd yn ei gwneud hi'n eitha anodd i gymryd arian mas, oherwydd y gyfundrefn oedd yn bodoli. Roedd yna optimism bias o gwmpas y prosiect. Felly wnes i sawl peth fel rhan o lessons learned, a rhanwyd hynny hefo'r Awdurdod ac hefyd hefo'r tîm mewnol.

I fynd yn ôl at gwestiwn Chris am beth ry'n ni'n rhoi fewn ers hynny, mae fy nhîm i yn mynd trwy bob buddsoddiad bob pythefnos. Pob chwarter, rwy'n cadeirio'r bwrdd masnachol ac yn sicrhau bod papurau yn mynd at aelodau annibynnol y bwrdd masnachol i ddangos beth sy'n digwydd. Yn y dyfodol, bydd unrhyw benderfyniadau ar werthiant neu pryniannau ar yr ochr fasnachol yn gorfod cael eu hawdurdodu gan y bwrdd unedol.

(Translation) In any case where an organisation loses money to that level, of course there is some kind of an internal review. I personally looked into the matter, taking into account where the decisions had been made and what lessons we could learn for the future, to ensure that there was never a chance of doing something like that again. I went through everything, from the initial decisions, to the evidence and the business case.

As Huw said, there was a quite a lot of scrutiny, but there were weaknesses around our understanding of how to play the lottery and of the business case itself. We were forced to establish the company in a way that made it quite difficult to take money out, because of the system that was in place. There was an optimism bias around the project. So I did several things as part of the lessons learned and that was shared with the Authority and also with the internal team.



HOUSE OF COMMONS

To go back to Chris's question about what we've done since then, my team now goes through every investment every fortnight. Every quarter, I chair the commercial board and I ensure that papers are provided to the commercial board's independent members to show what is happening. In the future, any decisions on sales or purchases on the commercial side will have to be approved by the unitary board.

- Q151 **Guto Bebb:** Dim ond cwpl o gwestiynau ar y mater yma. Fedrwch chi atgoffa'r Pwyllgor o bryd yn union gawsoch chi'r rhyddid i fuddsoddi'r £33 miliwn yn y modd roeddech chi'n ddymuno? Os dwi'n cofio'n iawn, mi oedd yna gwestiwn os oeddech chi'n gallu defnyddio hwnnw'n fasnachol yn wreiddiol.

(Translation) I have a couple of questions on this matter. Could you remind the Committee exactly when you were given the freedom to invest the £33 million in the way that you wished? As I recall, there was a question about whether you were originally able to use that commercially.

Huw Jones: Na, roedd y cwestiwn o gwmpas pa fath o bethau y bydden ni'n gallu buddsoddi ynddynt. Mae cyfyngiad arnom ni i wneud pethau sydd yn ymwneud â darlledu, yn y bôn. Ar y sail yna mae'r buddsoddiadau hyd yma wedi cael eu gwneud.

(Translation) No, the question was about what types of ventures we could invest in. There is a limitation on us to only do things relating to broadcasting, essentially. Investments until now have been made based on that.

- Q152 **Guto Bebb:** Roeddech chi'n nodi ffigwr o £33 miliwn, ond mae'r ffigwr bellach ychydig bach mwy na £20 miliwn. Ydyn ni, felly, fel Pwyllgor i dderbyn bod £13 miliwn wedi cael ei golli?

(Translation) You mentioned £33 million, but the figure is now a little bit more than £20 million. Do we have to accept as a Committee, therefore, that £13 million has been lost?

Huw Jones: Mae rhan o'r arian wedi cael ei dalu fel rhan o'r dividend masnachol blynyddol. Yn enwedig yn y cyfnod pan oedd yr arian yn cael ei dorri'n sylweddol, roedd hynny'n cael ei ddefnyddio rhywfaint i wastatáu. Mae yna nifer o fuddsoddiadau wedi cael eu gwneud mewn rhaglenni drwy'r gronfa fasnachol, ac mae'r rhaglenni hynny wedi cael eu dangos ar y teledu.

(Translation) Some of that money has been paid over as part of the annual commercial dividend. Especially when funding was being cut substantially, that was being used a little bit to smooth things over, but a number of investments have been made in programmes through the commercial fund, and of course those programmes have been shown on television.

- Q153 **Guto Bebb:** Cwestiwn olaf: os oedden ni mewn sefyllfa i gloriannu llwyddiant neu fethiant y buddsoddiadau, faint o'r cwmp hwnnw o £33 miliwn i £20 miliwn ydyn ni wedi ei weld ar y sgrîn, a faint sydd wedi bod



HOUSE OF COMMONS

yn golled oherwydd penderfyniadau masnachol sydd ddim wedi gweithio?

(Translation) A final question: if we were in a position to evaluate the success or failure of the investment, how much of that drop from £33 million to £20 million has been something we have seen on screen, and how much of it has been due to investments that have failed?

Owen Evans: Dydy'r ffigwr ddim efo fi ond fe allwn ni ddanfôn nodyn yn dangos yn union beth sydd wedi digwydd. Basen i'n meddwl bod tua 80% yn golledion yn hytrach na sgrîn, ond dim ond beth dwi'n ystyried yw hynny. Fel mae Huw yn dweud, mae rhywfaint wedi cael ei drosglwyddo fesul blwyddyn i fewn i'r gronfa gyhoeddus i gefnogi'r sianel. Mae e braidd yn fwy anodd na jest 80:20. Mae yna bethau eraill o gwmpas y peth hefyd. Ar y cyfan, mae'r gweithgaredd masnachol wedi gwneud arian, ond mae yna elfen o fair value ynddo fe. Hefyd, mae'r elw masnachol rydyn ni'n derbyn o hysbysebion ar y sgrîn.

(Translation) I do not have the figure, but we could send you a note showing you exactly what has taken place. I would imagine that around 80% is losses rather than screen, but that is just an educated guess. As Huw said, some of that has been transferred year by year into the public fund to support the channel itself, so it is more complicated than even that 80:20. There are other factors, too. Overall, commercial activity has been successful, but there is also fair value, and there is also the money we make out of on-screen advertisements.

Q154 **Chair:** One other question, Mr Evans. I know that you were not around when this was going on, but do you know if any of the directors of any of the companies into which S4C Digital Media invested were known socially to any of the people in S4C Digital Media who took those investment decisions; and, if so, was the appropriate declaration of interest made?

Owen Evans: I do not know. We do have a system of ensuring that declarations of interest are made, so I imagine that those processes would have been followed for those investments, but I am afraid I was not across that.

Chair: Once again, thank you very much indeed for coming in. You were very kind to say that you would provide us with a note, hopefully detailing the amount invested by S4C into Blurt and the other companies, including OobEdoO—we did not really have enough time to look at that one—as well as what knowledge you have of the profit and loss accounts that are not being shown on Companies House, and what knowledge you have as to how the investments that you made were actually spent. We would be very interested in that, I am sure.

Diolch am fawr am bopeth rydych chi'n wneud fel cwmni. Mae'n bwysig iawn ein bod yn cael yr iaith Gymraeg ar ein teledu. Nadolig llawen a blwyddyn newydd dda.

(Translation) Thank you for everything you do as a company. It is vital that we have the Welsh language on our television screens. Merry Christmas and a happy new year.