



14.08.2018

Margot James MP  
Minister for Digital and the Creative Industries  
DCMS  
100 Parliament St  
Westminster  
London  
SW1A 2BQ

Dear Margot

We are pleased to enclose S4C's implementation plan which responds to the recommendations made in the Review of S4C and also the Government's response published earlier this year.

We are confident that our plans for implementing the Review's recommendations will mean that S4C will continue to have a central and unique role to play in securing prominence and success for the Welsh language in the mass media of the future.

We are pleased to note that we have already made significant progress in implementing many of the recommendations. In areas relating to the provision of our service, we have already put in place a number of new strategies and initiatives to ensure that we are able to deliver the type of digital services envisaged by the review. In areas where S4C needs to cooperate with partners including DCMS and Ofcom, we have already held constructive discussions with a view to implementing a number of the recommendations.

We look forward to working with you and your officials to discussing our implementation plan and to delivering the matters set out in our plan.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Huw Jones'.

Huw Jones  
**Chairman**

A handwritten signature in black ink, appearing to read 'Owen Evans'.

Owen Evans  
**Chief Executive**

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## **Introduction**

### **S4C and the Review**

S4C began broadcasting at 18:00 on Monday 1 November 1982. Initially, 22 hours of Welsh-language programming were broadcast each week. Today, S4C broadcasts over 115 hours of programming each week, 1700 hours of new Welsh-language programming each year, with most of these available to view online for the following 30 days. S4C commissions content from 55 different independent companies and generates economic activity of £170m per year. It is the only Welsh-language television service available, whether free-to-air or commercially.

The Review therefore is entirely correct in emphasising S4C's central importance to Welsh life and the Welsh language.

Following a year in which the service achieved substantial growth in reach thanks primarily to high quality sport, drama and entertainment programmes, the publication of the independent Review is a timely signpost for fixing our sights confidently on the future. We are very grateful to Eirwyn Ogwen Williams for taking this work forward and we welcome the Government's contemporaneous response. This makes the path ahead clearer and accelerates the process of change and moving forward. We are determined to use this as a base to achieve even more for our viewers, especially digitally. In particular we welcome the strong commitment made by the UK Government to supporting and enshrining S4C's status as an independent Broadcaster.

### **Remit**

The digital direction described in the review is not new to us. We have signalled the direction in which S4C needs to go, and have taken important steps along that road, introducing our *Hansh* (for young people) and *Cyw Tiwb* (for young children) online services. But it was very important to receive confirmation of support for the need for S4C to take on the role of a fully-fledged Welsh language public service media provider. The Review provides this as does the commitment from Government that our statutory remit will be changed in due course. It is no small matter for any organisation to spend the public money it receives for purposes that are not clearly identified in the documents that establish its purpose. Simply from the point of view of regularity, the promise of a new remit – with an emphasis on digital development and a wide-ranging audience – is fundamental and very important.

We do not intend to wait for legislation before taking decisive steps. The digital world is having a dramatic effect on the viewing habits of audiences, particularly the young. They can watch more of what they want, when they want, and receive personal viewing recommendations about subjects of particular interest to them. Welsh language content must find its way quickly on to the most commonly used digital devices. Increasingly, such content needs to be created specifically for digital consumption.

## **Digital strategy**

Technology encourages us as broadcasters to seek to communicate and interact with our audiences one-to-one rather than one-to-many. Developing the means which will allow us to personalise our services to this end is a key element of the digital strategy described in this implementation plan.

We have announced our intention to spend £3 million over the next 3 years specifically on this new digital strategy – in addition to what is currently being spent, and in addition to the use of content that is appropriate for all platforms. A greater amount, as a percentage of our income, than that spent by Channel 4, for example.

Personalisation will be one aspect of the challenge of ensuring viewers, in a fragmented media world, are aware of the Welsh-language content available to them. In this context, we were disappointed that the Review did not make stronger reference to the importance of securing prominence for public service media providers on digital platforms. We regard all Welsh-speakers, of whatever degree of fluency and familiarity with the language, as our potential viewers, and it is clear that the media choice of many is governed not by the linguistic medium but by awareness of attractive content.

The prominence given to S4C on the programme guides and apps of the future is, if anything, even more critical for us than it is for English-language PSMPs and we would urge the Government to do all within its power to support the objective of continued prominence. In this respect S4C has already met with the Minister for Digital and Creative Industries, BBC, C4 and OFCOM to discuss the issue and S4C welcomes OFCOM's recent consultation on the subject.

S4C will seek to maximise its visibility in the future both through a greater involvement with the development of its iPlayer presence thanks to its partnership with the BBC but also through improved digital marketing using data captured through its own Clic player.

## **Governance**

There are many challenges involved in ensuring successful implementation of a new strategy, of course. Internally, new skills will be needed – a new mindset – driving new developments forward while maintaining the linear channel.

We welcome the proposals made and agree that the new governance model which has been recommended is likely to provide greater clarity as to how and where future strategy is developed and approved, making it clear that S4C is a single body and that all key decisions are made by its Board, which will include the Chief Executive and other senior officers, as well as a majority of non-executive directors.

It will need to be clear, however, that non-executive members of the Board have specific duties in terms of scrutiny and monitoring of executive performance, including that of the services that S4C provides. This will be facilitated by retaining the principle that editorial responsibility and content commissioning decisions, within an approved overall strategic framework, rest with the Chief Executive and his team.

We believe that these and related issues can be successfully addressed by new Standing Orders and that these will enable current members of the Authority, together with a specific number of independent directors and also executive directors who should be proposed by a nominations committee of the board, to act as a shadow unified Board while awaiting legislation in due course. We believe this can take place before the autumn, in line with the recommended timetable. New members of the Authority Board appointed recently have been told that they will automatically become members of the new unitary board.

## **Funding**

The Review's emphasis on the importance of financial stability and transparency for S4C, together with the Government's support for these comments, is one we warmly welcome. Though we had hoped that the Review would suggest principles by which the Secretary of State would arrive at future decisions regarding sufficiency of funding for S4C, these comments do offer the hope that S4C funding now ceases to be a regular topic of debate. This will help ensure that the organisation's focus is directed fully to delivering its core functions.

It will of course be a challenge in the short term to ensure that the money available is sufficient to fund several platforms and types of services. The audience for Welsh language content is varied and our enthusiasm for digital must be balanced by our responsibility to continue to meet the needs of those for whom the TV screen, either live or as catch-up, is the preferred delivery mechanism for entertainment and information. This will require a careful balancing of priorities, with constant reference to audience preferences. The expectation of funding stability, however, will provide a good foundation for continuing to seek out the efficiencies that will be needed.

The recommendation that S4C should in due course be fully funded by the television licence fee has attracted much attention.

The obvious advantage of sourcing S4C funding in its entirety from the licence fee is that the commitment can be made for a five year period, in parallel with the licence fee settlement itself. This therefore is the mechanism by which funding stability is to be delivered from 2022/23 onwards. The Review is silent on the question of the quantum of such funding, and its relationship to the calculation of the licence fee settlement as a whole. We would wish to ensure that S4C is fully consulted and involved in all relevant aspects of the discussions leading up to the licence fee settlement for the period 2022/23 onwards.

We ourselves have expressed concerns in the past regarding the danger of funding from a single source creating a perception of loss of independence for S4C. However, two factors have led us to revise that view.

The Partnership Agreement signed last year with the BBC indicates clearly that this relationship is one of partnership between two independent bodies and the Reviewer's comments together with the Government's response regarding the importance of S4C's continued independence are very strong and clear. We greatly welcome that commitment.

## **The Welsh Language**

Everyone – of a certain age, at least – remembers and understands why S4C was created. It is a crucial element in the effort to secure a future for the Welsh language. It has always been a matter of common sense that S4C has a role to play in the development of the language, but the Review's recommendation that this should be recognised more clearly, together with the Government's formal support for this view, is potentially far-reaching.

It goes without saying that a public service broadcaster in the British tradition cannot be an arm of any government. The freedom to scrutinise and comment on Welsh and UK government policies, including those in respect of the Welsh language, within our programming, is an essential part of our broadcasting heritage. It will therefore be very important for us to define clearly what this new provision means and how it is to be implemented.

The main solution will be effective partnerships. There are strong words in the review about this. It is important for us to hear them. We need to recognise that we do not have the skills, the expertise, in-house at the moment to realise all the hopes and expectations. So the need to discuss and work with others is clear.

## **Other Partnerships**

S4C's main partnerships are with the production sector and the BBC. The review welcomes and commends the partnership with the BBC, and there is a specific suggestion about the nature of news provision that will be discussed further. But it seems that we need to look again at ways of strengthening our relationship with the production sector through TAC.

We feel that the Review's comments about our commissioning system missed changes made in recent years. The comments tend to reflect the situation when there was heavy pressure to maintain the service while coping with major financial cuts. This meant that to ensure certainty of supply of programming a strategy of focusing on a number of large suppliers was followed to ensure critical mass during a period of drastically reduced programming budgets. S4C has now met with TAC members to explain the changes made and to ensure that all affected stakeholders understand that the previous strategy is no longer in operation. Commissioning decisions are now more clearly driven by the service's priorities, not the need to deliver a step change in terms of efficiencies following the reduction in S4C's funding and we are sure that that is how it should be in the future too, particularly if funding stability is achieved.

Whilst S4C would always prefer to be able to engage with a strong representative body that can represent the interests of production companies of all sizes, we recognise that there has been a feeling amongst some that the voices of smaller suppliers was not being heard. S4C has already engaged with TAC about how best to increase the engagement of smaller companies and it has been encouraging to see this bearing fruit with an increased number of smaller companies joining the organisation. To ensure an equality of access to our commissioning team we have also commenced open sessions for all companies to come and meet our Commissioners to understand their future requirements and to pitch ideas.

We agree that there is a need to re-engage with questions about securing sufficient skills for the future within the creative industries following the loss of Cyfle and Skillset Cymru, especially in terms of our digital ambition. Work is already underway in this direction with S4C and TAC commissioning joint research into the skills needs of the industry for publication in Autumn 2018.

### **Commercial opportunities**

We welcome greater freedom to operate commercially and have been interested to hear some of the reviewer's subsequent comments regarding the particular nature of the opportunities which he felt could be identified.

We will be actively seeking out opportunities to match S4C funding with other sources of finance for projects which serve parallel objectives, such as the creation of digital and other UK content for children and young people. We also recognise that S4C is in a unique position to act as a catalyst for Welsh language content creation on all platforms. Our experience, however, is that Welsh language content *per se* is extremely difficult to monetise, even on an international basis, because of the small size of the potential audience. Generally speaking, commercial opportunities arise when content is also created in English or multiple languages. As S4C is already heavily engaged in securing co-production funds to supplement its own (£23m secured over 6 years), this is not in itself a new activity for us and we will wish to build on this track record. S4C is pioneering new partnerships with international distributors such as All3media and Parade Media looking at how we can leverage more co-production funds but also in securing these funds earlier in the process. For example, S4C recently hosted a session on co-production with the sector where All3Media presented on the routes to market and preparation needed.

We agree with the recommendation that commercial activity should come under the direct management of the unitary Board. S4C recognises the need to align its commercial activities both with its areas of expertise but also with its core strategy. Commercial investments henceforth will be made in parallel with S4C's broader strategic objectives. The Commercial Board in future will scrutinise potential investments but all funding decisions will be routed through the Authority and, when appropriate, the Unitary Board itself. This will guarantee close oversight and alignment of investment decisions coupled to regular reporting at Authority level. We will need to be mindful, however, that we continue to comply with the statutory obligation not to use any element of S4C's public funding for commercial purposes.

### **The confidence to move ahead**

The Review has posed some tough challenges for us, but has also offered the means of providing valuable stability for several years to come. S4C has a long-established place as a public service broadcaster within the UK and international spheres. Drama series from Wales which have originated at S4C currently have a high visibility on UK networks and across the world, contributing a positive image of Wales as a home of creative talent. This makes us believe that the world is truly open to innovative creative talent wherever it is to be found. We want to play our part in making sure that Wales is a winner in that world.

One thing which the review has not changed is S4C's unique mission of providing a service through the medium of Welsh. If anything, its recommendations strengthen the importance of that mission. We welcome this and believe that our plans for implementing the Review's recommendations will mean that S4C will continue to have a central and unique role to play in securing prominence and success for the Welsh language in the mass media of the future.

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Huw Jones  
**Chairman**

A handwritten signature in black ink, appearing to read 'Owen Evans'.

Owen Evans  
**Chief Executive**

## **Implementing the Review – Our Plan and Progress to date**

The review challenged S4C to make progress in a number of areas as it responds to the increasingly fragmented nature of broadcasting. Whilst S4C has already made good progress in many of the areas covered we will now explain further S4C's intentions and how we expect to deliver them. The changes are partly in S4C's hands but some will rely on external factors such as potential changes in legislation. For this reason, we will group our future activities into two sections. The first section will focus on structural issues where external action, particularly by Government, is required. Secondly, we will focus on service delivery and organisational matters that are the responsibility of S4C itself.

### **Structural recommendations**

We have already spoken of our acceptance and indeed welcomed the need to change our governance structures and remit.

#### **S4C's Public Service Remit (Recommendation 1)**

**The government should update S4C's public service remit to include digital and online services and remove the current geographical broadcasting restrictions. This will allow S4C to broaden its reach and offer its content on a range of new platforms in the UK and beyond**

The remit is now antiquated and if S4C is to commit the resource to adapting fully to the challenges ahead, particularly in terms of our digital ambitions, it needs updating. Whilst the UK Government seeks legislative space to enact these provisions, the direction given by the Secretary of State has been clear and S4C is already making progress in this area. The Government's unequivocal support for these changes though mean that S4C has already been investing in this area.

The Government's support for renewing our remit to further our digital ambitions will see us delivering a step change in our digital broadcast capabilities over the next two years. S4C has already re-launched its online player 'S4C Clic' to enhance the user experience through a full refresh of the service and through several improvements to its functionality and stability. These improvements, however, are only the first step in building 'Clic' into a player that can match our leading competitors' players in terms of functionality and experience. As part of our £3m investment into digital capabilities and content, over the next 12 months we will transform 'Clic' into a player offering downloads, unique content including box sets and sports and the ability to offer our newer digital content in a more accessible style, particularly for our younger viewers. We will also be introducing a sign in and begin to use relevant user data to be able to tailor the player to the individual, moving from a model of one to thousands to one to one. It is only through such developments, available to viewers across the UK and where rights allow further afield, that S4C can provide the type of broadcast experience increasingly being expected by our audience. Specific details of the exact implementation of these changes are attached at Annex A.

#### **S4C's public funding (Recommendation 4)**

**S4C's public funding should be provided entirely through the licence fee from 2022/23 onwards, with all future funding decisions made as part of the BBC licence fee funding settlement.**

We have already spoken about how we feel the UK Government's strong commitment to S4C's on-going independence means that S4C can now welcome this recommendation, subject to the need to maintain the Secretary of State's clear role in agreeing any settlement. Whilst the licence fee funding settlement discussions are not set to begin until 2021 S4C looks forward to tripartite discussions with the DCMS and BBC as any future settlement or formula is agreed.



In the meantime S4C welcomes the funding stability confirmed in the Government's response and in statements made by the Minister for Digital and Creative Industries. This stability is an important step in ensuring that S4C can rebalance its spending priorities, maintaining the quality of its content as it meets the digital challenge.

At a practical level we note the need to ensure that the level of S4C's future funding from the Licence Fee and the process for determining this funding (including the requirements of s.31 of the Public Bodies Act 2011 and clause 39 of the Framework Agreement) are set out and agreed in parallel with discussions regarding the Licence Fee settlement with the BBC for the second licence fee period of the current Royal Charter. We consider this (i.e. parallel discussions with S4C's full involvement) to be crucial if S4C's independence, and the principle of sufficiency of funding are to be respected in line with the Review's recommendations and the Government's response.

### **S4C's Commercial powers (Recommendation 5)**

**The government should consider amending current approval requirements to give S4C greater freedom to invest and generate commercial revenue.**

We welcome the review's recommendation that S4C should be given greater freedom to operate commercially. We have also acted swiftly to explore how our commercial strategy must adapt in light of the Review's findings across a number of areas and can confirm that a new Commercial Strategy is already in place. This strategy, developed with the benefit of considerable and experienced external advice, will allow S4C to seek greater returns from the developing broadcast market in both traditional and more advanced digital areas. The new strategy also, however, seeks to learn lessons from the past ensuring that investments are made in areas of expertise and supported by enhanced governance to provide the assurance that investment decisions are fully tested. Whilst the activities of S4C's commercial aspirations will continue to be driven solely from its commercial funds, the overall strategy of the channel will increasingly drive these investments. With the agreement of S4C's new Commercial Strategy, we are on track to make the new strategy fully operational in terms of direction and governance in Autumn 2018. The new strategy will then be communicated amongst relevant parties and become available on S4C's corporate web site.

The governance arrangements for the commercial activities will be set out in S4C's new Standing Orders. These will be discussed with DCMS in time for the introduction of the shadow unitary board in September.

### **Governance arrangements - Unitary Board (Recommendation 6)**

**The S4C Authority should be replaced with a new unitary board comprising executive and non-executive directors.**

We have already welcomed the proposed move from the S4C Authority model to a Unitary Board. We will establish a shadow Unitary Board in September 2018 until legislation is brought forward to confirm the proposed changes. In implementing this recommendation, we will draw upon best practice from similar models, including the BBC, and also on the relevant provisions of the UK Corporate Governance Code and other codes. We will ensure that the shadow unitary board model will include suitable governance and accountability provisions.

Given the importance of good governance and ambitious time scale for the roll out of this recommendation the following elements will have been agreed and enacted by the end of September 2018:

- Revision of the board's Standing Orders to reflect new unitary board responsibilities, methods of working and delegations to the CEO;
- Revision of the board Committees' standing orders to reflect their revised role, including clearer scrutiny and oversight roles for certain committees such as Audit and Risk Management and the Content Committee;
- Developing a new accountability and governance structure for S4C's commercial activities;
- Providing clear information on S4C's website to explain the changes;
- Creating a new induction programme for all directors – to include current and new non-exec directors in addition to the executive directors and other executives that will attend board meetings;
- Setting out annual reporting commitments to ensure suitable accountability arrangements – including preparing and publishing an Annual Plan to accompany the statutory Statement of Programme Policy.
- These commitments would be in addition to current statutory and other requirements that include preparation of an annual report and statement of accounts and presenting the report to Parliament and the Welsh Assembly, attending meetings of the WAC and CMS select committees, attending meetings of the Welsh Assembly's committees, providing financial assurance reporting to the BBC Audit Committee and ensuring compliance with Ofcom's regulatory requirements.

### **S4C's Audit Arrangements (Recommendation 7)**

**The government should consider whether S4C's current financial audit arrangements are suitable, including whether it would be appropriate to appoint the Comptroller and Auditor General as S4C's external auditor.**

S4C and DCMS have already commenced discussions regarding S4C's future external audit arrangements. We can confirm that the NAO already has access to S4C's accounts for value for money purposes through the 2013 Operating Agreement and 2017 Partnership Agreement between S4C and the BBC. The NAO also has sight of S4C's annual Statement of Accounts through DCMS.

We note and welcome the Secretary of State's acceptance of this recommendation and will work with the DCMS as discussions with the C&AG progress.

These discussions will involve considerations such as scope and fee structure as appropriate. During this phase S4C's current external audit contract (with Grant Thornton) comes to an end at the end of the 2018/19 financial year. S4C proposes that the current contract should run its course, and therefore that Grant Thornton should audit the 2018/19 Statement of Accounts whilst discussions are ongoing.

During this period, S4C and Grant Thornton would cooperate with the NAO and would provide appropriate access to the NAO of S4C's audit for the foreseeable future. In the meantime, and subject to DCMS's negotiations with the C&AG, S4C, DCMS and the NAO can discuss and agree external audit arrangements going forward.

### **Regulation of S4C's services**

We note the Review's conclusions regarding the regulatory provisions and structure relating to S4C's television services as being broadly effective, but that the current framework is not necessarily clear to external stakeholders. Again, S4C has sought to make swift progress on the recommendations and we can confirm that S4C has held constructive discussions with Ofcom Cymru and the Chair of Ofcom regarding options for clarifying and publicising the current statutory regulatory provisions. S4C has agreed to provide a draft MOU to Ofcom for discussion with a view to implementation and communication by both S4C and OFCOM's websites in Autumn 2018.

In the short term, we will set out clearly the relevant regulatory provision on our website, which we expect to go live in September 2018.

### **Implementation of service and organisational developments**

In addition to the structural issues dealt with above, the independent review made recommendations aimed at improving S4C's service provision and how the organisation operates. In contrast to the necessity for Government involvement in the implementation of structural issues, we acknowledge the need for service and organisational developments to be delivered by S4C, in line with the recommendation, which we accept, and essential ongoing assessment of audience need and benefits.

### **Digital development (inc. S4C Digital Hub – Recommendation 2)**

#### **S4C should establish an in-house digital hub to develop and improve S4C's digital footprint and form the basis of a Welsh language digital cluster.**

S4C cannot compete with other broadcasters in terms of audience reach if we do not continue to embrace the digital revolution. The Review itself contributed to significant debate around our future direction and since its publication S4C has taken several steps to take full advantage of the forthcoming change in remit and the opportunities it brings.

At the highest level S4C has already signed off and launched its overall digital strategy, supported by a £3m investment re-prioritised from existing funds over the next three years. This investment will build a Digital Hub within S4C with expertise across both content creation and delivery as well as data handling and exploitation. Whilst these skills and activities will be deployed across S4C, much of the activities will take place at our new HQ in Carmarthen.

This strategy covers four main areas. The first is to refresh S4C's player 'Clic'. We have already commented on these developments above. We have bolstered the resource in this area and have a plan that will see steady increments towards a player with unique content in several formats, download capabilities and data capture within 12 months.

The second area is the storage and exploitation of the data we intend to capture through the player, taking into account all GDPR requirements. These activities fall into three phases, the detail behind which are attached in Annex A, but will eventually see S4C being able to capture, host and exploit the information gathered. Whilst S4C has some capacity and capability in this area, we have drawn extensively on external expertise as we draw up our implementation plan. This plan is already in the execution phase with business analysts already in post.

The third area is to grow our content in the digital space. Part of the £3m investment will see an expansion in both short and medium form content through the Hansh brand leading up to its launch as a stand-alone Digital channel on the Clic player in Autumn 2018. This stand-alone channel will offer new content on a weekly basis backed up by easily accessible back catalogues coupled to archive material and be targeted at the 16-34 age group. Content will be diverse and be designed to appeal to a broad range of the target segment. S4C's commissioning strategy has focused on developing skills in this area and we are pleased that over 14 production companies can now supply this new type of content, in comparison to less than 5 a year ago. This proliferation of talent and capacity has for now mitigated the need to build in-house capabilities but S4C will continue to monitor whether to start building its own production capacity in house. The new commercial freedoms may play a part in developing vertical integration into this area.

In addition to the stand alone digital channel, we have already advertised for the creation of the role of a Curator and assistant for the Clic Player, so we can offer selected material from S4C's archive and move away from linear scheduling on our digital platforms. These appointments mark a significant development in S4C's move to a more multi-platform approach to broadcasting.

The fourth area being developed is the marketing and promotion of our programmes using both the data available on viewing habits but also the social media channels available. Again, whilst some capability and capacity exist within S4C we have decided to bolster our skills and focus in this area and a new team will be created to focus on digital marketing in Autumn 2018 with the key appointment already made to lead that team. Within twelve months S4C will be in a position to promote its programmes directly to the individual viewer based on their own preferences and delivered via their preferred communications method.

In drawing up the new digital strategy, S4C has contacted experienced experts from both creative and technical fields. The experts have been drawn from the largest institutions in Wales but also from leaders in their fields in London and the USA.

### **Partnerships and collaboration (inc. Recommendation 3)**

**S4C should establish a language partnership with the Welsh Government and others to help deliver the Welsh Government's commitment to reach 1 million Welsh language speakers by 2050.**

S4C should establish a language partnership with the Welsh Government and others to help deliver the Welsh Government's commitment to reach 1 million Welsh language speakers by 2050.

Recommendation 3 of the Independent Review focuses specifically on S4C's potential contribution towards delivering the Welsh Government's commitment to reaching 1 million Welsh language speakers by 2050. We welcome the recommendation and the government's clear acceptance of it and we agree that S4C has a significant role in terms of securing the future of Welsh as a living language. We also welcome the opportunity to build a more strategic relationship with the Welsh Government and indeed Welsh Assembly.

Whilst S4C must always guard its editorial independence and integrity, there are clearly areas where we can cooperate to advance the Welsh language's use in Wales.

At the National Eisteddfod this year, S4C and the Welsh Government have confirmed their intentions to work together on focused interventions to support the language. The three areas that have been agreed where S4C will best be able to collaborate and add value during the period 2018-2021 are: supporting Welsh learners, education, and children and young people. Discussions are underway to form specific partnerships, achieving carefully targeted aims in these areas. In addition to the Welsh Government, regular meetings are now underway with other key partners including BBC Cymru, Mudiadau Meithrin, the National Eisteddfod, Yr Urdd, and Y Ganolfan Dysgu Cymraeg Genedlaethol.

To ensure that we make as significant impact as possible we have re-focussed our partnership strategy, which, following our consideration of the Review's suggestions, was launched in June 2018. This can be found in Annex B.

Similarly, we are in discussion with our partners with the aim of strengthening our collaboration with both TAC and the wider creative industries in Wales, with advanced negotiations on addressing certain sectoral skills gaps. We are a partner in the Theatr Genedlaethol's (Welsh language National Theatre of Wales) New Writers' Group, which will offer up to eight new or emerging theatre writers working in Welsh the opportunity to develop their craft through a series of events, workshops and mentorship over a period of 10 months from autumn 2018. With ITV Cymru Wales, two trainee journalists are learning the skills needed to make news and current affairs content for our online brand Hansh. In addition, skills development has been a core output of our partnership with Arts Council Wales; a high-level mentoring and training scheme for new directors, Y Labordy 2, is now reaching completion. Four writers benefitted from the first Labordy partnership programme, which is also funded through Ffilm Cymru Wales.

We also deal regularly with wider relevant organisations and bodies [e.g. the CBI, the Creative Industries Federation] in terms of policy development, networking opportunities and ideas exchanges as well as sharing best practice. S4C has also partnered with Cardiff University, the University of South Wales and Cardiff Metropolitan University, the BBC and others in an attempt to secure digital development funding from the £80m Creative Industries Clusters Programme (CICP) led by the Arts and Humanities Research Council (AHRC) and funded by the UK Government's Industrial Strategy Challenge Fund (ICSF). We await the result of this competitive process in September 2018.

S4C is a catalyst in the development of the creative industries in the Carmarthen area with the creation of our new headquarters, Canolfan S4C Yr Egin. While ensuring the success of this development over the coming years is a priority, we are also developing plans to support the growth of the creative industries in northeast Wales. We have already re-prioritised a recurring £400,000pa of annual funding to the area and are in discussions with production companies, Coleg Cambria and Glyndwr University and the Welsh Government about creating a sustainable media industry in the region. This will be in addition to discussing the potential to develop the use of our archive with partners including the British Film Institute and the National Library of Wales. S4C will develop a strategy for the use and capture of its archive building on its already significant investment in securing these resources for the nation. This will be finalised in Autumn 2018 and involve the Welsh Government in ensuring it fits into wider digital developments.

As important will be S4C's relationship with the Welsh and UK Governments as it seeks to promote and support the development of Welsh language Voice Recognition software. S4C has already met with the Welsh Government at Ministerial level, The National Assembly for Wales and several international technology firms to plan a route forward.

Finally, internationally we have taken steps to bolster our partnership activities through other Celtic broadcasters and international distributors. Since the Independent Review was published, S4C and its partners (MG Alba and TG4) have piloted a collaborative presence at the Sunnyside of the Doc festival at La Rochelle under the Celtic Connect banner. This activity is designed to build on collaboration over recent years. Together we have developed Celtic Formats, which has created successful content such as *Nain Nain Nain* for us. Also, in 2017, *Llanw* (S4C, TG4, Alba, BBC NI and LIC China) and *Y Wal* (S4C, TG4 a JTV) were commissioned. In a move which takes our collaborative efforts one step further, we announced in early August our Celtic International Fund. The new fund is a joint venture between ILBF, BBC Alba (with funding from MG Alba), TG4 and S4C with the aim of promoting co-development and then co-production through Scottish Gaelic, Welsh and Irish and to encourage a broader European and worldwide internationalisation of production which are originally conceived in those Celtic languages.

We will assess the Sunnyside pilot project and develop an action plan with MG Alba and TG4. We will also continue to work with a range of international broadcasters e.g. JTV in South Korea (an MoU between S4C and JTV has been in place since 2014 and renewed annually), and producers such as LIC in China, with whom S4C, TG4 and BBC Alba collaborated on the *Llanw* series. Finally, we have agreed to work with distributors such as All3Media and the Parade Group to explore the potential for more formal and strategic distribution agreements for new formats.

In terms of partnerships the Review also raises concerns regarding several aspects of S4C's news coverage supplied by BBC Wales. Whilst S4C is comfortable overall with its news coverage there is more to do and S4C has been engaging with the BBC over the past six months to improve this output. Several editorial meetings have highlighted the need to work together to ensure that both the correct talent and suitable investigative as well as reactive news coverage is forthcoming. Plurality of news in Wales is a continuing issue that has been much discussed by politicians and commentators alike. To help promote a greater span of expertise S4C has both expanded the range of its current affairs commissioning with the new ITV Wales produced 'Y Byd yn ei le' in addition to 'Y Byd ar Bedwar'. In addition, we have also broken new ground by launching our new Journalism Training Scheme in partnership with ITV Wales.

## Recommendation 5

**The government should consider amending current approval requirements to give S4C greater freedom to invest and generate commercial revenue.**

Over recent months, and since the independent review was published, S4C has undertaken a thorough review of both its current commercial strategy and its future direction and governance. While the review of previous activities demonstrated positive returns overall that were then reinvested in the organisation's public services, S4C has now decided that our future commercial activities should align more closely with our own strategic ambitions. To achieve this the S4C Authority has given approval for the Chief Executive and officials to draw up new proposals allowing S4C Commercial to invest in companies that, due to the nature of their activities, may be suppliers of content for S4C. These investments may well involve those in digital content production. These proposals will require us to demonstrate how the independence of the commissioning process can be retained. These proposals for a key element of S4C new Commercial Strategy, which has now been approved by the S4C Authority Board (Annex C).

In light of the above change to Commercial Strategy, the S4C Authority has accepted the Chief Executive's recommendation to create an internal Investment Panel with a view to ensuring close alignment between S4C's commercial activity and its strategic activities.

The panel will be made up of senior officers from S4C augmented as required by external expertise. The role of the panel will be twofold in monitoring the performance of current commercial investments on a regular basis and in sourcing new potential investment options. The panel would then bring these recommendations plus performance reports to the Commercial Board for scrutiny. The Chief Executive will chair the Commercial Board, which will feature a minimum of two non-executive members and two members of the Authority or, in time, Unitary Board. The chair will report on activities periodically to the Authority or Unitary Board, who will have the ultimate decision-making role on significant investments.

The final element of the revised governance structure will be changes to the Chief Executive's delegated spend limits. These will be set at an appropriate level but made cumulative so that any investment increases in any single body over a certain limit are flagged to the Authority.

Finally, S4C welcomes the suggestion that it explores all potential funding routes. S4C has already leveraged £23.5m from its coproduction activities in the last six years and will seek to continue in this vein. To ensure we can maximise our potential returns and showcase our content internationally S4C has already engaged with major distribution partners and the other Celtic minority broadcasters to draw up an enhanced international strategy. We have also begun discussions with several parties to leverage funding to pursue our digital and production ambitions, partnering in an ambitious AHRC bid on Creative Clusters and seeking support from the DCMS's own contestable fund.

## **Conclusion**

S4C has welcomed both the Review and the UK Government's recommendations. In addition, S4C welcomed the debate the Review caused amongst the broadcasting community and has taken many lessons on board. Whilst some activities were already underway as S4C continues to adapt to the changing broadcast environment, we believe we have made significant progress already in all of the areas highlighted in the review. Whilst many of the decisions around re-prioritisation of funds and capacity will always be difficult as we seek to maintain the quality and diversity of our main linear channel, S4C is breaking new ground with its developing digital strategy and capabilities. We have also acted swiftly in publishing new partnership and commercial strategies to maximise the use of the resources at our and our partners' disposal. Whilst we believe that S4C is investing in the areas that will bring long-term value to our viewers, the UK Government will continue to play an important role both in delivering on its own commitments but also on major strategic concerns about the prominence of the public sector broadcasters in the developing digital world.

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## S4C Digital Strategy: 2018 and beyond

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This paper sets out the Digital Strategy following the independent review of S4C earlier in 2018.

S4C's primary strategic aims for the period between 2018 -2021 are:

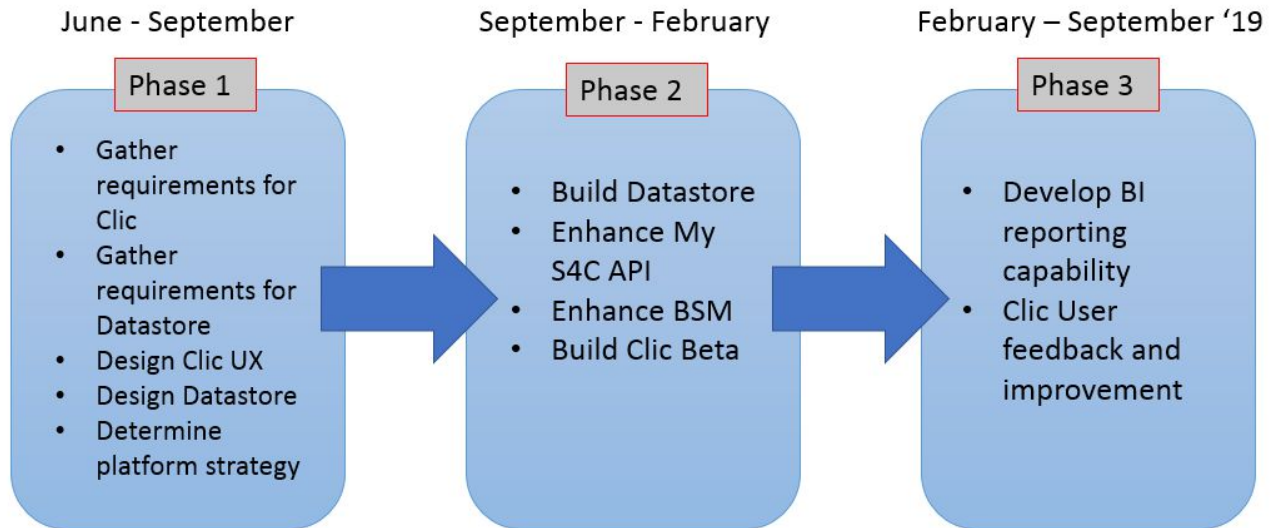
1. Attract younger viewers by offering content in the Welsh language which is relevant, contemporary in design and easy to find, view and share.
2. Personalisation. This is offering a service that is shaped to the unique viewer, contacting them directly with content that matches their viewing patterns.
3. Improve S4C's internal digital infrastructure in order to offer services which meet evolving audience expectations.

In order to meet these strategic aims, we will focus on the following areas of development:

1. **Clic** – the S4C player has been upgraded (released July 23) in both design and functionality to provide a platform which will be vital as we realise the next stages of our digital strategy.
2. **Personalisation** – the first stages will be introduced in September that will enable S4C to offer users content in which they are likely to have an interest according to their viewing patterns and preferences. In order to achieve this, we will introduce new back-end functionality for the capture and processing of user data.
3. **Boxsets** – Currently S4C lags behind rival broadcasters by only providing a catch-up viewing platform of content broadcast within the previous 35 days. In September S4C will begin providing boxset content, i.e. content that has not been broadcast in the previous 35 days. This is closely linked to Personalisation.
4. **Digital Channel** – our digital channel will be launched later this year, providing the gateway to specific sub-brands, of which our digital offering Hansh, has performed very strongly in the past year.
5. **Download content** - We are also developing a facility for downloading content, which is again common in the industry but not a development that we can currently provide. It is envisaged that this will be introduced in 2019.



The timeline for the Digital plan to provide internal infrastructure and set up the requisite data systems is:



## Digital Content & Linear Programming

Industry research forecasts that this year more people will view content through digital platforms rather than traditional television (Enders Analysis, May 2018). Therefore we aim to ensure that S4C is providing content on the platforms our audiences are frequently using. It is also a vital part of our strategy to reflect the enduring popularity of television, especially as a medium for live events and high-end productions, and further explore how digital content can complement our linear offer.

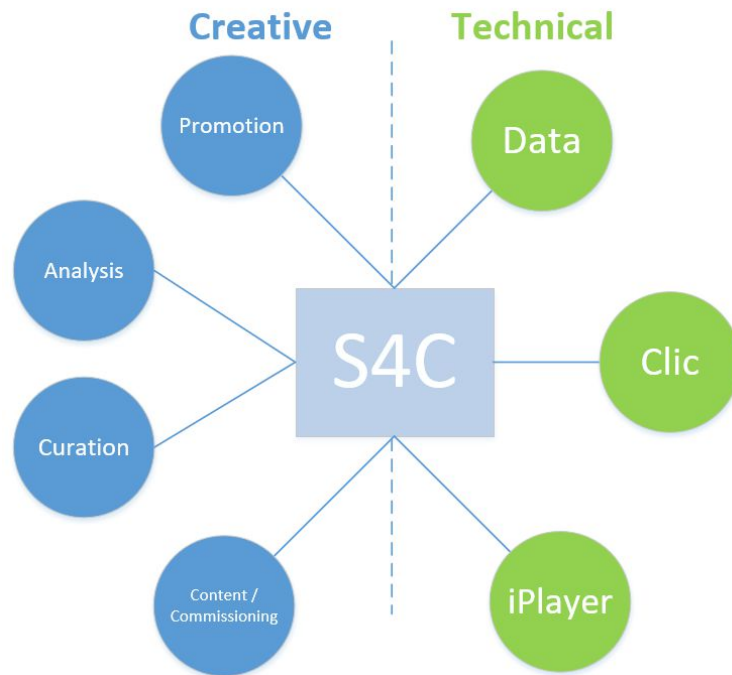
In order to achieve this, we will continue to work with our partners in the independent production sector to provide additional digital content in conjunction with traditional programmes.

S4C will continue to broadcast through the main channel alongside our catch-up service. But we will increase our presence in the digital world through a variety of channels that offer a wider variety of choice. This greater offering of content will be tailored to meet the individual's tastes and wishes. Alongside this, we will develop and implement wider methods of communications, aiming to shift the balance between traditional and digital methods to meet the needs of target audiences.

These actions are aimed at changing the way we offer our content to our viewers, and with the growth in this field we strongly believe that we can attract more viewers through the digital world. We are changing our methods of working internally to enable this to happen, and to react in the future to developments in viewing patterns, in content and technology.

Our strategy for sharing content involves having a presence on the mainstays of social media, where we are achieving great success and increasing levels of engagement, but we are also actively pushing on more than one platform. Facebook and YouTube being two of these. We are also in the process of commissioning more UGC content and providing a method where users can share their UGC freely through our channel.

These are the two sides to our strategy. One side is the content, led by the Content Director. The other is the technical, which encompasses the various platforms and our strategy for using these.



### iPlayer

Our relationship with iPlayer is important, as this is one of the most successful VOD and live streaming platforms in Europe. This remains the most developed of PSB platforms in terms of technology and access to the greatest volume of users in the UK. The BBC has invested heavily in the platform and therefore there is great advantage in being available on this platform. Currently we are the only broadcaster outside of the BBC family that has a presence on the iPlayer. Most of our content, except where rights prevent this, is available on iPlayer. We are in discussions about increasing the prominence of our content and for greater access to the data collected on the viewing patterns, for both analysis and planning commissioning and marketing strategies.

With the possibility of future collaboration between UK PSBs around platform sharing, with the aim of boosting prominence of PSB content, we remain open to opportunities to explore further partnership working in this area.

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## Partnerships Strategy 2018-2021

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### Summary

This is S4C's strategy for implementing and supporting partnerships for 2018-2021. This strategy replaces the previous strategy and implements the recommendation of the S4C independent review (DCMS 2018) on partnerships. We will review the strategy annually.

### The Current Situation

The Partnerships Department was established in 2012 with terms of reference that included public affairs, ensuring a good relationship with stakeholders – political and others – and forming partnerships with a specific goal of looking constantly for new opportunities and prospective partnerships. Memoranda of understanding were drawn up to formalise a number of partnerships that included BAFTA Cymru and the Arts Council of Wales. A number of partnerships feed into S4C content, and the content department has led on these, e.g. Wales Millennium Centre, the Urdd and Theatr Genedlaethol (MoU with all of these). S4C has also worked closely with a number of other national organisations with the aim of sharing information, collaborating or supporting individual projects by either organisation, and tapping into contact networks.

Supporting and ensuring added value for content has also been a part of the department's work. With the adoption of a new content strategy in 2017, and a greater degree of pre-planning in terms of the broadcasting schedule, opportunities to do so will increase over the next phase. With a much more prominent link to the content strategy, the majority of partnership projects during the next phase will have a specific contact or corporate sponsor within the content department.

The intention is to prioritise and focus on a smaller number of partnerships with the aim of delivering one scheme with an impact in each phase. By the end of the period of this strategy, S4C will be seen as having a vital role in Wales and an innovative partner.

### The Review

Recommendation 3 of the Review states that 'S4C should establish a language partnership with the Welsh Government and others to help deliver the Welsh Government's commitment to reach 1 million Welsh language speakers by 2050.' DCMS agreed 'that S4C plays a vital role in reflecting Welsh culture and society and promoting the Welsh language,' with the suggestion that S4C 'focuses on areas where there is a clear devolution link such as education' in establishing a partnership with the Welsh Government. The reviewer suggests that this partnership should be established by the end of 2018.

While there is a fundamental point in terms of a public broadcaster's independence and the delivery of government policy, as the only Welsh language television channel and platform that is responsible for commissioning the highest number of hours of content in the language, we agree that S4C has a very particular role in securing the future of the Welsh language as a viable language. We have already prioritised the language as the main theme of the channel's partnership work during the next phase. We are discussing and working with the Welsh Government and partners in this area to ensure that the Welsh language is visible and used within our society. We will publish fuller details about this partnership by the end of 2018.

In the meantime, the Welsh Government is hosting a Welsh Language Promotion Group which is a regular forum which brings funding organisations together, with S4C and Radio Cymru also in attendance. This is the natural forum for S4C's language partnership work. The intention is also to meet separately with several of the organisations with which we will work in order to develop and implement clear plans under the priority themes below.

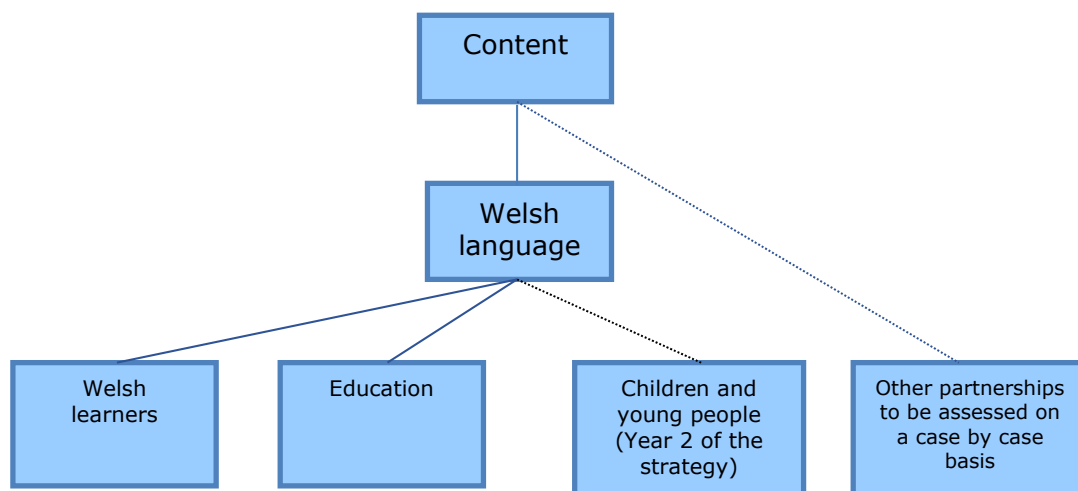
Although they are not formal recommendations, the review also suggests that S4C should work with the other minority broadcasters to support the creative industries in Wales and to work with TAC. This strategy also covers these workstreams being implemented by teams across S4C.

### Principles

The principles of this new strategy are simple.

- We will collaborate where there are measurable benefits and outcomes for S4C and the partner/s.
- Content is the overarching consideration with language as the next main subject.
- Three priority themes follow – Welsh learners, education, and children and young people.
- Each partnership or partnership project must support S4C's strategy and be relevant to at least one of these key priorities.
- Education and Welsh learners will be given priority in the first phase of the strategy with the aim of developing more formal schemes for children and young people from 2019 onwards.
- There will be no specific budget available automatically for each partnership or project. If a particular business case means that financial support will be required to implement a scheme, an application can be made to the Chief Executive for an additional budget

### The Themes



These priorities are in line with the aims of many partners working in the area of the Welsh language in Wales. They are also in line with the aims of the Welsh Government's A Million Welsh speakers strategy. By focusing on these areas, there are very obvious possibilities in terms of working with other organisations to achieve objectives that will have a genuine impact and outcome. These priority themes will guide our work with our current partners.

Occasionally, other opportunities will arise either through one of the partners with whom we have worked previously or through other organisations in Wales. We do not want to ignore these. We will evaluate them as individual cases, by using specific criteria, including the content strategy, before deciding whether or not we will be able to commit.

These specific objectives and individual themes have been developed following discussions on areas of collaboration with our prospective Welsh language partners.

### High level/overarching Strategic Objectives

- Attract new audiences for our services.
- Deliver benefits for the Welsh language and those who speak and are learning the language.
- Show that S4C offers opportunities to use, enjoy and hear the Welsh language on a range of platforms.
- Confirm S4C's position as a good partner with a core role in the lives of audiences in Wales.

### Welsh Learners

Supporting and engaging with learners at all levels is at the heart of this strategy. We want S4C to be seen as the natural home of Welsh-language content at all levels of fluency.

*Objective 1: develop a long-term partnership with the Welsh for Adults Centre by summer 2018 to inform and advise the new Welsh learners' service which will be screened from January 2019 onwards. S4C's content is seen as an essential resource as learners develop their language skills and look for opportunities to hear and use the Welsh language. We will grow a new audience for S4C and offer suitable content that will be accessible to all.*

This priority theme specifically supports content as we redevelop our provision and adult Welsh learner programmes that will be screened from 2019 onwards. To achieve this, we are building on a partnership developed with the Welsh for Adults Centre (the Centre.) To date, we have succeeded in organising lessons around S4C content such as Y Gwyll (Hinterland), Ffit Cymru and Un Bore Mercher (Keeping Faith.) We will formalise the partnership with the Centre in summer 2018 and the Centre will inform and advise our new service for Welsh learners which will be on-air from 2019 onwards. The partnership offers us expertise on Welsh learners' requirements and needs and ensures that we will be able to tailor and package content that is suitable for Welsh learners. There are also opportunities in terms of promotion and sharing information.

Work with Welsh learners also links with one of the other priorities, i.e. children and young people.

*Objective 2: work with Mudiad Meithrin on the Clwb Cwtsh scheme to provide access to S4C content for Welsh learners who have children or who care for children of the Cyw age range and above. We will formalise the support by the end of August 2018.*

We are also working with Mudiad Meithrin (third sector specialist in the provision of Welsh-medium early years education and nursery groups) on their Clwb Cwtsh scheme (in co-operation with the Centre). We were partners in the first phase of the scheme that encourages child carers who speak no Welsh at all to start learning the language in eight-week sessions, with Mudiad providing entertainment for carers (parents, those who work with children and other family members who play a part in child care) so that there are no barriers to attending the lessons.

The aim is that learners will then transfer to other learners' provision by the Centre. S4C has re-broadcast programmes supporting the weekly themes of Clwb Cwtsh 1 (spring 2018) during Cyw slots. We are discussing more intensive support for Clwb Cwtsh 2 and 3 that will take place in autumn 2018 and from January 2019.

Relevant commissioner: Sioned Wyn Roberts.  
Support: scheduling, legal and partnerships.

### Education

There is a demand for the use of S4C content in the classroom and many efforts have been made over the years to organise effective systems for this purpose as the learning environment develops. We have succeeded in developing a partnership with Coleg Cymraeg where S4C's content is available on a closed platform for students. We have also secured partnerships with platforms for distributing or sharing content, e.g. ERA and ClickView. But we want to achieve more.

*Objective 3: make S4C content (both new and archive) available on relevant platforms to support learning along the education continuum by the launch of the new Welsh curriculum in 2020/1. We will ensure that education experts advise us on our content and work with partners – including the Welsh Government, WJEC, Coleg Cymraeg, the production sector, teacher and school networks, various distribution platforms and content partners – as resources are developed.*

*Objective 4:*

*Increase awareness and use of Cyw services and S4C's content for children in primary schools – including schools where Welsh is taught as a second language. Support teachers to use the resources and build their confidence in their Welsh language skills. By the launch of the new curriculum.*

We will develop a work plan for this objective, which will derive from the evaluation of a pilot scheme being run with pioneer schools in the Barry and Vale area this year. Teachers will advise us on the resources they will need to use a history series filmed in St Fagans National Museum of History in lessons. We will also work in partnership with the National Museum on this series.

Working with schools where Welsh is a second language is an opportunity to support new Welsh speakers and our future audience. It is also in line with the 2050 Strategy objectives of increasing the number of Welsh speakers. At the same time, ensuring better networks and links with Welsh-medium schools will continue to be a priority. Dysgu Gyda Cyw is a weekly hour that is suitable for showing in schools and nurseries, for example.

Relevant commissioner: Sioned Wyn Roberts  
Support: legal department and library/content and archive, communications and marketing, partnerships.

### Children and young people

Cyw is one of S4C's most popular services. The brand is integral to our work throughout the year with many of our partners including the Urdd, Mudiad Meithrin and the National Eisteddfod. Partnerships such as Into Film, Bardd Plant Cymru (National Children's Poet) and our work with Mentrau Iaith (community-based organisations which work to raise support the Welsh language) on Fideo Fi offer us opportunities to bring S4C content and the Stwnsh brand to the attention of older children.

Reaching young people is very difficult for all public broadcasters but there is strong evidence that our Hansh brand reaches this target group and offers them the opportunity to use and to hear the Welsh language.

Children and young people will be crucial as we develop our future audience and support Welsh speakers. Our aim in the second year of the strategy will be to develop a plan to support our contact with these groups and to share content e.g. Hansh. From our initial conversations with language partners in this area, it appears that music could be a theme for this work but we will scope it in due course.

Relevant Commissioner: Sioned Wyn Roberts and Rhodri ap Dyfrig  
Support: marketing and communications department, partnerships

### **Other partnerships**

We appreciate the contribution of our existing partners – and the opportunity to share priorities and work programmes enables both parties to benefit. The themes of this strategy [content, the Welsh language, Welsh learners, education, and children and young people] will guide our work with our existing partners and provide an opportunity to deliver on new joint projects.

Training and developing talent has been an aim in working with many of our partners recently, e.g. Y Labordy 1 and 2 (the Wales Arts Council and Ffilm Cymru Wales), a new writers' scheme (Theatr Genedlaethol and others), developing journalists (ITV for Hansh), the Iris Festival, It's My Shout and Skills for the Digital Economy (TAC through Creative Skillset Cymru). Partnering with other organisations will be crucial in continuing to support skills over the next phase including Canolfan S4C yr Egin and S4C's desire to do more in the north east of Wales.

Supporting partnerships that feed into the strategy's priority themes will also provide an opportunity as S4C's headquarters move to Carmarthen in autumn 2018. Networks such as the Canolfan S4C yr Egin steering committee and the LEADER project run by the Egin Director are already in existence and provide an opportunity for us to continue to develop this for the duration of this strategy.

### **Action Plans and Evaluation**

These themes will have action plans which will include specific and measurable targets and we will report back on progress to the Authority/Unitary board. There is a small team and resources are not huge. The aim is to work collaboratively across S4C to build on work that is already happening in terms of content, offering additional opportunities to reach new audiences while supporting the Welsh language priorities.

### **Other Workstreams Relevant to Suggestions in the Review**

#### **TAC**

The UK Government accepted the suggestion in the review that S4C and TAC (as the representative body for the television production sector in Wales) should take steps to regain the trust of smaller producers and re-establish TAC's role as an effective broker between S4C and the production community in Wales. We will work closely with TAC and help them support the sector that produces for us by providing a range of services and training opportunities for companies of all sizes.

### **Creative Industries in Wales**

The UK Government agreed with the suggestion in the review that S4C should look at ways of supporting the creative industries in Wales more widely. We agree that S4C has a crucial role in this regard and is already looking for opportunities. We are proactive with regard to existing forums and groups e.g. Creative North Wales, Creative Carmarthenshire, Creative Cardiff and What Next? We have links with wider relevant organisations, e.g. the CBI in terms of identifying policy, opportunities, contacts and best practice.

S4C is driving the development of the creative industries in the Carmarthen area with its new headquarters, Canolfan S4C yr Egin, and ensuring success in this field for the duration of this strategy is a priority. The development of plans to support the growth of the creative industries in the north east is also something that S4C is also addressing. In addition, we are working in partnership with other organisations in trying to attract funding to support the development of the creative industries in Wales, e.g. the £80m Creative Industries Clusters Programme (CICP) run by the Arts and Humanities Research Council (AHRC) is a fund financed by the UK Government's Industrial Strategy Challenge Fund (ICSF).

We will develop an action plan to encompass and implement this by autumn 2018 and will update DCMS.

### **Other smaller broadcasters**

There was a suggestion in the review that S4C should improve its relationships with broadcasters of other minority languages – with reference to the Celtic broadcasters in particular – in order to share information and best practice and to look at opportunities for collaboration. There has been contact and collaboration with TG4 and MG and BBC Alba for many years. In recent years this has led to the *Celtic Formats* that S4C played a leading role in developing, which have given us successful content such as *Galw Nain*, *Nain*, *Nain*. In 2017, the *Llanw* series (S4C, TG4, Alba, BBC NI and LIC China) and *Y Wal* (S4C, TG4 and JTV) were commissioned.

Recently, the content department has continued to expand this collaboration – especially in taking content, formats and joint commissioning opportunities worldwide. The Scandinavian countries have worked together successfully in this way for many years. S4C, with the Celtic partners, will be piloting our joint presence at the Sunny Side of the Doc festival in La Rochelle, under the Celtic Connect banner that has been developed through the Celtic media festival.

We will assess the pilot and develop an action plan with TG4 and Alba. We will also continue to work with a range of international broadcasters, e.g. JTV in South Korea (the S4C / JTV MoU has been in place since 2014 and renewed annually), and producers such as LIC in China, where S4C, TG4 and BBC Alba have worked together on the *Llanw* series. This developed through building on a relationship S4C had developed and shared with the other Celtic broadcasters. At the same time, we strive to continue to collaborate with the UK's larger public broadcasters.

June 2018.



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## **S4C Commercial Strategy (July 2018)**

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This paper sets out a refreshed Commercial Strategy for SDML (S4C Digital Media Limited).

The overarching priorities will focus on three areas:

1. S4C's Overall strategy
2. Commercial and Investment priorities
3. Governance changes

We will deal with each in turn.

### **1. S4C's Overall Strategy**

The overall portfolio approach has been widely supported but requires some refining of its structure and operation. Currently the portfolio is understood at a high level to spread across a range of risk profiles. This has been the basis of the 'balanced portfolio'. To simplify the situation the portfolio will be split into low, medium and high risk categories. Whilst there is no correct model, a blend of risk profiles will be adopted to balance low risk but relatively low return investments with other grades of investment that may well deliver greater returns but with a higher risk profile. The portfolio will be categorised as low, medium and high risk and will use the following definitions:

*Low risk* - certainty of retaining full or near capital value is high, returns are likely to be positive if limited or hedged as to any potential external risks.

*Medium risk* - slightly greater uncertainty of retaining full capital although expectations of retention are good. No cover via hedging against external shocks.

*High risk* - real possibility of loss of capital (max 50%) but potential for high returns or significant other advantages to S4C's core objectives. (>10%).

Any investments are linked to either revenue or capital returns rather than purely brand related activities.

Defining the mix between the various categories is relatively subjective but 40:40:20 seems a sensible starting point with some (+/- 10%) allowed for each category.

### **2. Commercial and Investment Priorities**

Firstly, it's worth restating that the purposes of the Commercial fund should be:

- Primarily creating the environment so that positive dividends can support the activities of S4C, the shareholder.
- Supporting the strategic aims of the channel where possible.

Turning to the mix of investments, the composition of the low to medium investments is relatively clear in terms of the current mix of Sarasin type investments but would be expanded to include the purchase of land or capital assets where the risk of loss would be low and potential returns relatively modest but real.

These types of investments would typically involve expert managing agents to supervise the investments and the Commercial Board's role would be to monitor returns, ensure that sufficient future planning is undertaken to manage any changes in overall market expectations and then

report to the Authority/Unitary Board on performance. The simple core aim of these investments would be capital growth and/or revenue gains.

The higher risk profile investments would be dealt with differently. S4C's commercial strategy will henceforth allow investments in production companies and firms engaged or potentially engaged in S4C's supply chain.

Evidence gathered has highlighted the advances and gains that Channel 4, ITV and more recently Sky, Netflix etc, in particular, had derived from vertical integration. S4C will, in future, be willing to invest in firms from the categories below who have the clear potential to grow their business across the UK and more widely if possible.

These categories are:

- TV Production
- Facilities
- Media/Digital content

These are areas where S4C has expertise. This expertise would be augmented as necessary from external sources, for example in developing our own Channel 4 Growth fund model if that came to pass.

This will require clear guidelines on the separation of S4C's commercial activities and its commissioning processes. This is not new, however, with informal arrangements already existing for potential suppliers that we have invested in, for example Wild Seed and Parade Media. In time these procedures will need to be formalised.

Learning lessons from recent investments, start-up investments without a significant demonstration of strong track records by the personnel involved should be avoided.

The other consideration is the element of control that SDML would seek to take in any investments. Channel 4, for example, began with a limit of 30% equity or shareholding in their investments. They, and Sky, have now adopted a more strategic approach in taking controlling interests in their investments at 51% or above.

This strategy sets a 30% cap for S4C investments, to be reviewed as necessary. In investments in higher risk companies we would seek the services of senior mentors to develop the talent involved.

As for any investment, an exit strategy and indication of expectations on revenue or equity growth would be required.

Finally, it is noted that considerable thought will be required around the branding of the new activities. The Channel 4 Growth Fund and Sky Distribution are understood to be separate from their parent companies and we will need to endeavour to ensure that the separation between S4C's public activities and our commercial activities are understood in the same way given our recent experiences with stakeholders.

### **Commercial Airtime Sales**

Currently the vast majority of S4C's commercial airtime sales is delivered via the outsourced Sky contract, which is close to re-tender. It is clear, however, that decisions will have to be made regarding the potential for driving revenue growth from digital advertising through S4C's digital services. This will be the subject of further detailed work.

### **3. Governance changes**

There are three elements to discuss in terms of future governance arrangements.

These are:

- How ideas come to be presented to the Commercial Board
- The decision-making process vis a vis the Commercial Board and Authority/Unitary Board
- Chief Executive's Discretionary Powers

We will deal with each in turn.

### **Presentation of Ideas**

Mirroring the experience of Channel 4GF, an internal Investment Panel will be set up in Autumn 2018. This would provide focus for the activities but also ensure close monitoring of progress beyond the normal activities of the Commercial Board. Any proposals would then be brought to the Commercial Board for its consideration accompanied by independent third-party advice.

### **Decision Making Process and Monitoring**

Once ratified and supported by the Commercial Board the final decision on whether to make the decision or not would rest with the Authority/Unitary Board. Whilst the Commercial Board would receive short bi-monthly updates on investment performance, the Commercial Board, through the Chair, would provide bi-annual reports on progress to the Authority/Unitary Board.

### **Chief Executive's Discretionary Powers**

Currently the Chief Executive has the discretion to spend up to £250k in single investments. This figure will remain to provide the necessary flexibility required but the amount is capped for any investment or investments into the same body. This would serve to flag to the Authority/Unitary Board where investments begin to increase beyond the £250k in any single investment.

Owen Evans  
2018