

Funding Welsh language broadcasting: New taxation to fund a new Welsh multimedia provider

Cymdeithas yr Iaith Gymraeg Discussion Paper



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1. Introduction

Welsh broadcasting is in a serious and vulnerable condition and it is now a matter of great concern to all those who want to see the Welsh language flourish. This paper aims to outline alternative methods of financing broadcasting to ensure that the Welsh language thrives in the media and that sound financial sources are available to promote our national language and satisfy the right of every citizen in Wales to see, hear and enjoy it.

S4C and Radio Cymru are facing unprecedented challenges. Both the Welsh national television channel and radio station have suffered significant cuts and persistent threats over the past few years, and the future is very uncertain. Furthermore, they have been criticised for trying, and failing, to be all things to all people. At the same time, other broadcasters and private media companies continue to see significant increases in their annual turnover and profits.

In suggesting alternative methods for funding S4C and, to an extent, Radio Cymru, we also suggest that a proportion of any extra money raised be earmarked specifically for the establishment of a new service. In the second part of this paper we share our vision for a new multimedia provider that will fill a gap in the market by focusing on a younger audience while helping to address the problem of language use among those particular age groups.

Furthermore, we believe that the following discussion should take place within the wider context of the devolution of broadcasting to Wales, in order to design and implement a system that adequately represents and reflects the specific needs of Wales and her communities.

2. The Financial Context

Public broadcasters in Britain have suffered major cuts in funding over the past five years. During the same period, and despite the recession, private broadcasters such as British

Sky Broadcasting (Sky) and ITV, have seen a large increase in their profits. Online platforms, such as Google and Facebook, also continue to see huge increases in their annual turnover, while using complex business structures in order to avoid paying fair and appropriate taxes to the government.

2.1. Public broadcasters

Changes in the Public Bodies Act abolished the statutory funding formula that gave assurances to S4C regarding the funding it would receive. Despite thousands of people uniting behind our campaign under the banner "No to cuts - Yes to a new channel", there were cuts of 92% to S4C's grant from the UK Government following a deal that was struck between the BBC and the Conservative-Liberal Democrat coalition in 2010 - a decision made in London without consulting anyone in Wales. Even considering the contribution of the licence fee, the cuts to S4C amount to 40%, a figure said to make the service unsustainable. In the face of these cuts, S4C recently decided to centralise their contracts with a smaller number of large companies thereby reducing the benefit of the sector to smaller producers.

2.2. Private broadcasters

While there have been massive cuts to the funds of public broadcasters, the opposite is the case for many private media companies. BSkyB increased its turnover from £5.4 billion in 2009 to £7.2 billion in 2013, a rise of 33%. The company is now making a profit of £1.3 billion annually (2013) compared to £813 million in 2009, an increase of £487 million, or 60%¹.

ITV has also seen a large increase in profits over the 5 years leading up to 2013. In 2009, the company's turnover was £1.9 billion, with a steady annual increase to £2.4 billion in 2013. In terms of profits, the company has seen a huge 178% rise from £196 million in 2009 to £546 million in 2013².

2.3. Online platforms

Online platforms have also seen steady and significant improvements in their turnover and profits over the last five years. While these companies make huge profits and avoid paying fair taxes in Britain, they also make use of content produced by other producers without paying any fee for the right to use that content.

In the case of Google's provision, there are Welsh language services available, but there are still clear deficiencies that compel users to use English. Cymdeithas yr Iaith have tried to contact the company to discuss their provision of other products and services in Welsh, including Android, Search, YouTube, Maps, Drive, Calendar, Alerts and Analytics. Despite

¹ <http://www.redmayne.co.uk/research/securitydetails/financials.htm?tkr=BSY>

² <http://www.redmayne.co.uk/research/securitydetails/financials.htm?tkr=ITV>

repeated requests for a meeting, Google have not shown any serious interest in discussing our concerns.

In 2013, Google saw an increase in its income in Britain to £3.4 billion (up 15.5% on 2012)³. By comparison, £3.65 billion was collected through the BBC licence fee over the same period. This trend suggests that Google's revenues in 2014 will overtake the money collected through the licence fee. The majority of Google's income comes via advertising - 96% in 2011 and, despite these significant revenues, Google paid only £11.2 million in corporate tax in 2012.

In the first quarter of 2014 alone, Facebook earned profits of £383 million internationally. Revenues in the same period were £2.5 billion, an increase of 72% on the same period in 2013, primarily because of advertising growth on mobile devices⁴.

3. Funding options for Welsh broadcasting

There are several possible options and models that could be employed or implemented to fund Welsh broadcasting services. In this paper, we consider the options outlined below to ensure that there is more investment in Welsh broadcasting.

Since Cymdeithas yr Iaith launched a campaign for the devolution of broadcasting to Wales, a large number of organisations and politicians from several parties have shown support for our call. Furthermore, the people of Wales seem very supportive of our stance as well. According to an opinion poll conducted by the Silk Commission, 58% of the population supported devolving broadcasting, a higher figure than a number of other policy areas⁵.

3.1. Statutory share of the UK license fee

A TV channel cannot be run without certainty about sufficient funding. The current agreement provides funding to S4C until 2016-7. We believe that we need a financial formula for S4C which will provide long term stability for the channel to do its work with confidence. A statutory proportion of the UK licence fee would be one possible way to achieve this.

3.2. Welsh license fee with a proportion going directly to S4C

Similar to option 1, a Welsh licence fee would give more security to public broadcasting in Wales and to S4C in particular. We recognise the period of time that would be required to establish a separate system for Wales; but, with the UK licence fee under threat, it would

³<http://www.independent.co.uk/news/business/news/dont-tell-the-taxman-but-google-revenues-will-soon-beat-the-bbcs-9098221.html>

⁴ <http://www.bbc.co.uk/news/business-27135109>

⁵<http://commissionondevolutioninwales.independent.gov.uk/cy/2013/08/13/arolwg-beaufort-yn-dangos-bod-y-gefnogaeth-i-gynullii-ad-cenedlaethol-cymru-a-rhoi-rhagor-o-bwerau-iddo-yn-parhau-i-gynyddu/>

be sensible for the Welsh Government to commission research on the costs and feasibility of the establishment of a separate Welsh arrangement.

3.3. Direct funding from the National Assembly

In 2014, the Silk Commission suggested shifting responsibility for funding S4C from the UK Government to the Welsh Government, as well as other structural changes. Further, the British Culture Secretary has stated that he is considering such a move⁶. In order to guarantee the expertise and ability to make the right decisions for the future of broadcasting in Wales, funding and legislative powers over the media should also be transferred to the National Assembly for Wales. Only full devolution would allow people in Wales to establish a system that is most appropriate for them.

3.4. Tax on telecommunications companies and Internet service providers

Internet providers and telecommunications companies offer a wide range platforms to watch and use media content. Companies, such as TalkTalk, EE (Orange/T-Mobile), Sky Broadband, Virgin Media and Vodafone, continue to see a significant increase in their profits year after year. Office for National Statistics figures from 2013 suggest that 21 million homes in the countries of Britain have access to the Internet⁷. They also noted that access to the Internet through mobile phones more than doubled between 2010 and 2013, from 24% to 53%. Based on the figure above, a flat-rate levy of £5 annually per subscriber could raise approximately £105 million.

The above figures clearly show the vast sums of money that flow through the hands of private companies. By setting the direct levy on the turnover or profit of internet service providers and telecommunications companies, a significant source of additional funding can be raised for public service broadcasting.

An estimate of the amount that could be raised by a levy of 1% on 2013 turnover TalkTalk £1.7 billion⁸ = £17 million

An estimate of the amount that could be raised by a levy of 1% on 2013 turnover EE (Orange/T-Mobile) £3.2 billion⁹ = £32 million

3.5. Tax on Advertising

In 1998, a report by the United Nations Development Fund suggested that companies should allocate 3% of their advertising revenue to fund "non-profit, certified, qualified, public interest TV and radio producers" to cover "counter-advertising". In the case of the UK in particular, the media Advertising Standards Authority (ASA, a body which regulates

⁶ <http://www.walesonline.co.uk/news/wales-news/responsibility-s4c-could-transferred-wales-7440459>

⁷ <http://www.ons.gov.uk/ons/rel/rdit2/internet-access---households-and-individuals/2013/stb-ia-2013.html>

⁸ <http://citywire.co.uk/new-model-adviser/share-prices-and-performance/share-factsheet.aspx?InstrumentID=224836>

⁹ <http://mobilemarketingmagazine.com/ee-posts-record-profit-margin/>

advertising across media at a British level) is funded by a levy of 0.1% on the cost of purchasing advertising space, and 0.2% on some direct mail. This allows the ASA to respond to complaints and to check advertisements to ensure that they comply with the code of conduct regarding misleading, harmful or offensive advertising.

Recently, the concept of an advertising fund has been proposed in relation to 'green' issues. The 'Green Manifesto' proposes a 0.1% levy on companies that advertise in the UK. The authors of the manifesto argue for:

"levy[ing] a small surcharge on conventional advertising (as the Advertising Standards Authority does already to pay for its compliance service) to catalyse and shift to sustainable consumption habits, using crowd-sourcing for new ideas and roll-out through social media platforms"

The authors of the manifesto suggests that such a levy could raise £16 million on a British level, and logically so, income could increase to around £160 million should the levy be raised to 1%¹⁰. In the Welsh context, a levy on companies that advertise in Wales, or in the countries of Britain, could contribute to the funding of public service broadcasting in general, with any company that complies with a Welsh language marketing code being exempt.

3.6. Tax on the broadcasting industry and the private sector

The final recommended option is the introduction of an industrial levy, namely a tax or additional payment by certain sections of the media industry based on annual turnover or profit. Industrial levies are not a new concept as they already exist in a number of European countries. In France, for example, the Centre National de la Cinématographie (CNC) is funded through a system of levies on broadcasters, cinemas and video labels. The system raises about 500 million euros annually towards the production of films in French¹¹.

When looking at the UK broadcasting market, it is clear that there have been huge increases in the income of private companies, while there have been significant cuts to public service broadcasters.

Based on the figures from 2013 in the previous section of this paper:

An estimate of the amount that could be raised by a levy of 1% on the turnover of BSKyB - £ 7.2 billion = £ 72 million

An estimate of the amount that could be raised by a levy of 1% on the turnover of Google - £ 3.4 billion = £ 34 million

¹⁰ <http://www.theguardian.com/sustainable-business/advertising-industry-tax-sustainable-consumption>

¹¹ Mind the Funding Gap - a report by IPPR on behalf of BECTU and NUJ <https://www.bectu.org.uk/news/230>

By extending a 1% levy to the turnover of other private companies, such as Facebook and Virgin Media, and to telecommunications companies, such as Vodafone and TalkTalk, a significant amount of additional money could be raised to fund public broadcasting across the UK, with a fair share of it going straight to S4C and to a new Welsh language provider.

4. New Multimedia Provider

When we try to explain our campaign for a 'new' provider, some people misunderstand the idea. When we, as an organisation, established Sianel 62, it was a small-scale example of the type of media entity that can be created from scratch. Yes, the new provider would create and distribute content, but it would also be set up to distribute content over a range of platforms - from the radio and television to the web and mobile devices. It would be ready-made for the convergence of entertainment and news sources.

We believe that any additional funding raised to fund Welsh broadcasting in general, (including the S4C and Radio Cymru) should also be used to establish a new service that would respond to major changes taking place in media broadcasting, while also releasing Radio Cymru and S4C from the burden of having to provide for the entire Welsh audience. Creating a varied media ecosystem is essential to the future of the Welsh language and substantial investment in digital media is crucial to ensuring that the language is heard and seen across all media.

The new provider should not be viewed in terms as narrow as a second radio station or second Welsh-language television channel. There is potential for a new multimedia service to achieve much more. New and alternative structures would reflect the need for a multimedia approach from the outset, using new platforms to reach the widest possible audience.

The establishment of this new multimedia provider would be beneficial for S4C, BBC Radio Cymru and, more importantly, for the Welsh language and its communities. It would expand the audience that currently listens to, watches and/or uses their Welsh. It could provide a national network in Wales taking advantage of technological convergence to offer a platform for local and community projects. More than a one-way traditional broadcaster, its aim would be to strengthen the Welsh language and its communities. Not a broadcaster for its own benefit, but for the benefit of the language.

Our aim as a society is to establish a new provider that could expand the Welsh audience and release S4C, Radio Cymru (and the BBC generally) from trying to serve the entire Welsh audience, including every age group, and the problems that this naturally creates. It would allow S4C and Radio Cymru to focus on a more discrete and specific target audience, and the challenge of competition would also stimulate creativity. As a result, we believe that the creation of a new independent provider would strengthen Welsh broadcasting as a whole.

Unfortunately, the BBC does not see strengthening the Welsh language and their communities as part of its function or purpose, nor would the BBC be able to realise the necessary objectives of the new service. However, the corporation should have a part to play in supporting and facilitating the establishment of a new provider. The BBC should provide resources and support to set up a new enterprise, encouraging partners to work in a similar way. This would be advantageous to the Welsh language and Welsh media plurality and it would also allow the corporation to provide a more tailored Welsh service. The BBC should offer the new Welsh provider similar services offered by them to ITV in 2008, and also to other providers such as Radio Beca. In its proposals in 2008, the corporation said:

“Sharing the BBC's knowledge and expertise in digital production. ... If the BBC shared its knowledge and expertise with producers, broadcasters, publishers and manufacturers of broadcast and production equipment, much of this opportunity could be unlocked across the industry. Other broadcasters – and in particular other PSBs – could migrate more easily onto the new digital platforms and if other PSBs could achieve savings comparable to the BBC's, then their linear content budgets could go further. As a result, their ability to continue to support PSB could be significantly improved...Exploring ways of making some of the BBC's regional and local news materials available to other news outlets for repurposing and rebroadcast in ways which support the economics of regional news provision beyond the BBC.”

Such support could significantly assist the establishment and maintenance of a new multimedia provider. In addition, we believe that the BBC should offer other resources to the new provider, such as broadcasting services and transmitters.

The main purpose of the new service would be to support and promote the Welsh language, aimed particularly at a younger audience. New provision is needed to play a leading role in promoting the use of the language among teenagers and people in their early twenties, those age groups with the biggest decline in the use of Welsh in the last census. The current providers alone are not sufficient for strengthening the Welsh language and its communities. There is a need to establish a new entity which will promote the Welsh language at the heart of its work.

5. Conclusion

In order to fund public service broadcasting in Welsh and to establish a new multimedia service, we recommend charging a levy on broadcasting and telecommunications companies, and also on advertising. The levy could be introduced on a Welsh, British or European level, with a working group set up to lay the foundations for the new provider.

Clearly, a system of levies has the potential to raise significant additional sums to finance public service broadcasting. Taking such a step would not be breaking new ground. Such levies exist in countries across the world, and are an established mechanism for funding

the production and management of content and services. On a British level, a combination of these taxes or levies could raise well over £200 million a year (on a relatively low rate of 1% or less), generating additional income of well over £10 million a year on a Welsh level.

As we have seen over recent years, legislative changes gave the UK Government and the BBC the green light to cut Welsh broadcasting funding. Whichever approach to alternative funding is adopted, in order for the language to thrive in the media over the coming years, we believe that primary legislation is needed to ensure the stability and independence of S4C and of Welsh language broadcasting in general.

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