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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MB/HL/5501/11

Rt Hon Jeremy Hunt MP
Secretary of State
Department for Culture, Media and
Sport
2-4 Cockspur Street
London
SW1Y 5DH

17 July 2011

Dear Jeremy

I am writing in response to your open letter dated 16 May seeking views on the Communications Review.

The Welsh Government welcomes the opportunity to contribute to the Communications Review. The Welsh Government also welcomes the focus on growth and innovation provided that this emphasis does not overshadow the wider interests of citizens and consumers.

It is essential to ensure that appropriate communications channels are established through this Review to ensure that the Welsh Government can engage fully in the process of developing the future regulatory framework for the UK communications sector. We look forward to ongoing engagement with DCMS officials as part of an inclusive governance structure for this Review which is responsive to the interests of the Devolved Administrations.

Growth, innovation and deregulation

Achieving growth in the Welsh economy is a key Welsh Government Commitment. Strong economic growth will deliver improvements for families, communities and businesses across Wales and will enable us to build a competitive, confident and sustainable nation. The creative industries are identified in the Welsh Government's Economic Renewal Programme as a priority sector, with a history of above-average growth – experiencing a 25% increase in enterprise numbers and 23% growth in GVA between 2005 and 2009, according to IDBR data – and the potential to make a significant and sustainable contribution to the future growth of the Welsh economy.

The scope of activities and interests covered by the regulatory framework for the UK communications sector is broad and has direct impact on consumers, communities and businesses in Wales. The regulatory framework has the potential to directly influence the

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availability of communications infrastructure and hence the availability, cost and quality of high-speed broadband. It encompasses the rules which govern the use of the radio spectrum that underpins mobile telephony, broadcast television, radio and wireless communication. It ensures that high-quality television and radio programmes are produced by a range of different providers and that they appeal to a range of tastes and interests. The regulatory framework protects consumers from harmful or offensive material, from being treated unfairly and from invasions to privacy. It covers content and service creation across a range of digital platforms produced by the enormously important content and creative industries.

It is essential to get this regulatory framework right.

A convergent approach to regulation would better reflect the ongoing convergence in media formats and technologies, and the increasing blurring of traditional industry boundaries.

It is also essential that the regulatory framework is flexible and able to take account of the specific needs of different parts of the UK. To date a number of Ofcom's decisions have been seen as insufficiently sensitive to the Welsh perspective and there is scope to develop further the voice of its Welsh Advisory Committee.

The Welsh Government believes that each devolved nation should be represented on the Ofcom UK Board. This is not currently the case as Wales is not represented on the Board. We also advocate that Ofcom's Wales Advisory Committee should become a sub-committee of the main Ofcom Board.

We believe that broadcasters in Wales should be expected to maximise the economic leverage of their very significant annual expenditure for the benefit of independent Wales-based production companies and the Welsh economy. Many creative businesses in Wales work in markets where the numbers of potential customers are few and where London has a dominant position within the UK. The problem in Wales is not of a free market but of an existing market that is distorted by past events.

Deregulation can potentially facilitate competition and growth but also presents risks to the interests of individual nations and regions.

In terms of digital infrastructure, for example, there may be a case for deregulation in dense urban areas where markets thrive and competition drives down costs and increases service innovation, however, there may equally be a case for maintaining or even extending regulatory remedies in rural areas where service provision is often less diverse and more economically challenging.

Any move towards blanket deregulation risks entrenching existing market failings and removing access to potential remedies to address these failings. The Welsh Government prefers a more cautious approach to deregulation where it can be demonstrated that market forces alone can sustain innovation, growth and competition and that will not abandon the interests of Wales's citizens and businesses in the process.

The debate would perhaps be better focussed on when and where to apply regulatory remedies rather than on whether or not regulation helps or hinders innovation and growth in general terms. It is important to retain the ability to regulate. Any move toward deregulation must be taken with caution and handled with extreme care to ensure that the UK Government does not act in haste and leave the people of Wales to repent at their leisure.

It is also essential that the UK Government supports the ability of the creative industries to derive maximum commercial value from Intellectual Property assets through updating and improving the Intellectual Property regulatory framework.

Public Sector Broadcasting in a new digital age

Broadcasting is not a devolved issue and the development and regulation of all aspects of communications does not currently take sufficient account of local needs and priorities of UK nations and regions. As highlighted in the recent Hargreaves review of the Creative Industries in Wales, at the UK level, there is robust and ongoing debate about the strategic direction of public service broadcasting.

The public service broadcasters in Wales have a crucial role in the civic and economic life of Wales, not least in the context of a weak indigenous press and commercial television and radio sector in Wales. Their role has become even more important following the referendum result in March confirming that the National Assembly is to have direct primary legislative powers. Our concerns as a Government encompass the provision of non-news programmes directed at a Welsh audience as well as comprehensive news and current affairs coverage. Providing a satisfactory choice of programmes for the citizens of Wales is vital.

Recent reports regarding the scale of the threat to BBC Cymru Wales' English language services have only added to the uncertainty caused by the changes at S4C and the reduction in ITV Wales' output during the last few years.

The Welsh Government will continue to stand up for maintaining a comprehensive range of services for Welsh viewers in both English and Welsh. This underlines the need for a long-term guarantee of PSB broadcasting for Wales based on a genuine assessment of needs in both languages. There are a number of complex issues that need careful attention:

English language broadcasting

We are concerned over changes underway with regard to English language broadcasting in Wales. As a Government we are very concerned about the implications for services in Wales arising from possible cuts of 20% in the BBC's budget. The requirement for the BBC to find budget savings of 20% over the next four years represents a potentially disproportionate threat to the BBC's local services in Wales. The risks surrounding these budget cuts are made all the more serious by the disproportionate role which the BBC plays in delivering services in Wales.

We believe there should be a clear commitment to safeguarding and strengthening the core services which are specifically aimed at Welsh viewers and listeners. The BBC has always played a crucial role in reflecting and reinforcing the culture of Wales in both the English and Welsh languages. BBC Wales must retain a critical mass of services if it is to be able to deliver sensibly for Wales – and it starts from a relatively limited base. We do not see the development of Cardiff as an increasingly important centre for network productions as any sort of justification for reducing the BBC's investment in local services. The BBC's services in Wales, Scotland and Northern Ireland are crucial elements underpinning the notion of the 'United Kingdom'.

The Welsh Government has continued to refer to the importance of ensuring plurality of English language television in Wales in news and also general programming aimed at Welsh viewers. Both the Welsh Government and National Assembly for Wales have emphasised the need to ensure plurality and strong news services to ensure that democratic issues for Wales are available to the people of Wales on channel 3. The channel 3 news service should not be looked at as a 'regional news' service, but as an essential

A communications infrastructure that provides the foundations for growth

The telecommunications industry has continued to invest in digital infrastructure and new technologies in some parts of Wales yet despite this strong and positive investment, the market has not provided services equally across Wales. Regulatory remedies have not addressed the disparity between urban and rural service provision. This is evident in the availability and coverage of broadband, mobile telephony, FM radio services, DAB and broadcast television.

The Welsh Government has strong track record of delivering broadband initiatives that address different aspects of market failure in Wales. We have a Broadband Support Scheme in place to tackle the issue of basic broadband availability and our parallel Next Generation Broadband for Wales (NGBW) project is in procurement to bring high speed broadband to homes and businesses by 2015.

The UK Government's £530m superfast broadband fund draws on revenue generated by the TV Licence Fee and the under-spend from the Digital Switchover Help scheme. This is a fund that Welsh licence fee payers have contributed to and we have been arguing that Wales should, therefore, receive a fair proportion of this funding to support our NGBW project.

In response to Ofcom's assessment of future mobile competition and proposals for the award of 800MHz and 2.6GHz spectrum the Welsh Government called on Ofcom to set geographic coverage targets or, as a minimum, to set regional coverage targets specific to Wales rather than continue to measure coverage on a UK basis. This push for consideration of the sub-UK communications market should also be considered as an integral part of the Communications Review.

It is important that content and coverage of the DAB service in Wales is no worse than Welsh AM/FM radio coverage at present, and available in areas where the national radio stations (Radio Wales and Radio Cymru) can only be transmitted on the AM spectrum. The new DAB service needs to provide an enhanced service if listeners in all parts of the UK are to be persuaded of the merits of that service. The Welsh Government re-iterates its view that we would not be in favour of digital switchover for radio until there was a guarantee of at least 97% coverage for DAB throughout Wales.

The BBC1 HD channel raises similar concerns. Since its launch, there has not been a local opt-out and consequently it has not been possible to broadcast BBC1 Wales in HD. We have raised this issue with the BBC Trust and Executive but this further illustrates the challenges of balancing regulatory priorities across the UK whilst ensuring adequate provision for viewers in Wales.

Creating the right environment for the content industry to thrive

The creative industries in Wales are well placed to generate new and innovative content that contributes significantly to social and economic prosperity. We welcome the review's emphasis on creating an environment that facilitates innovation and removes barriers to growth within those industries.

At a UK level, the creative industries would benefit from better access to debt finance and risk capital, particularly for small and micro-businesses within creative content industries. It is important that each devolved nation should benefit proportionately from UK-wide funding initiatives, such as those operated by the Technology Strategy Board.

democratic national news service for the people of Wales. We urge the UK Government to protect the current news and non-news provision on ITV Wales.

Protecting services at a national Wales level should be the priority over developing local television services. The broadcasting landscape in Wales is vastly different from that in England. There is no history of local television in Wales and we are sceptical about how it could work here; however in extending our support across the full range of creative industries, we would not wish to exclude opportunities arising from local television.

There has been a significant reduction in English language programming targeted at Welsh viewers over recent years. Ofcom's latest "Communications Market Report" records that in 2009 the joint BBC and ITV spend on television services in Wales declined by no less than 16 per cent over the previous year, and by an average of 11 per cent per annum over the five years since 2004. This represents a drop of £5 million - from £33 million to £28 million. In fact the decline in spending for Wales is greater than in any other nation in the UK. This is a matter which the Welsh Government has raised with both ITV and the BBC Trust.

Welsh language broadcasting

The proposals from the DCMS that S4C funding should in future become the responsibility of the BBC are of far reaching importance for Wales, the Welsh language and the creative industries sector. S4C makes a crucial contribution to our economy as well as to our culture.

During the last few months we have expressed our serious concerns to the UK Government about the scale of the financial cuts being proposed by the UK Government and their impact on services across Wales as well as the future funding arrangements for the channel. The Welsh Government is concerned that changes to S4C's legislative arrangements will have an impact on its future funding. We will continue to argue the principle that Welsh language broadcasting should not be treated any less favourably than the other aspects of public service broadcasting. We will also continue to emphasise that the principles upon which S4C was established under successive Broadcasting Acts should not be abandoned.

We recognise that S4C cannot be insulated from the pressures facing all parts of the public sector. However, we are very concerned about the scale of the financial cuts being proposed by the UK Government. It is clear that these levels of cuts cannot be implemented without seriously affecting the scale and range of the programme service. We have also stressed the overwhelming importance we attach to the need for S4C to maintain its editorial and operational independence.

We have called for a wide ranging review of S4C commissioned jointly by the UK and Welsh Government. This proposal also has the support of the other political parties in Wales - it was included in the letter sent by the leaders of the four party leaders to the Prime Minister in October 2010. A similar suggestion was made in the review of the Creative Industries undertaken during 2010 by Professor Ian Hargreaves. The review would be an opportunity to explore all aspects of the Welsh language television service and to inform the future direction of that service and the most appropriate governance arrangements

Content commissioning

We would like to reiterate our view that all public service broadcasters should be required, as a minimum, to produce at least a population share of TV, radio, interactive and other content commissions in the nations and regions which they serve. In the case of Wales, this would represent approximately 5% of total commissioning expenditure. We believe that this is fully in conformity with their role in developing new talent throughout the UK and, in

the case of the BBC, with the commitment expressed in its "Out of London" plans to devolving power, production and investment from London to the Nations and Regions. Furthermore, a precedent has been set at MediaCityUK in Salford not only to increasing production in the North of England but to the relocation of whole departments with commissioning powers. Similar commitments need to be made to Wales.

As a Government we look forward to further contributing to this debate. My officials are already engaged with DCMS on the key issues and will continue to contribute constructively to ensure that the new Communication Act meets the needs of Wales.

Yours Ever



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